

UNIVERSAL  
LIBRARY

OU\_160460

UNIVERSAL  
LIBRARY



OUP—786—13-6-75—10,000.

**OSMANIA UNIVERSITY LIBRARY**

Call No. 332/10<sup>254</sup> Accession No. 13642

Author R 48F

Title Reserve Bank of India

This book should be returned on or before the date last marked below.

---





## FOREWORD

A Bulletin entitled *Functions and Working of the Reserve Bank of India* was first published in 1941. Since then, as a result of constitutional developments as well as continuous adaptation to the needs of a rapidly developing economy, a great many changes have taken place both in the structure of the Bank as well as in the scope of its functions. The Bulletin has, therefore, been entirely rewritten and is now presented to the general public in the hope that it will enable them to understand the broad working of an institution which is so closely concerned with their general welfare.

RESERVE BANK OF INDIA,  
BOMBAY,  
21-6-1958.

H. V. R. IENGAR,  
*Governor.*



# CONTENTS

Page

## *Foreword*

### I

## *Introduction*

Establishment of the Bank—Originally constituted as a shareholders' Bank—Transfer to State ownership—Central Board and Local Boards—Internal organisation and management —Main functions of the Bank . . . . . 1-9

### II

## *Regulation of Currency and Credit—I*

General observations—Statutory provisions relating to note issue—Administrative arrangements in regard to the issue of currency: Currency chests—Seasonal and other variations in currency circulation . . . . . 10-19

### III

## *Regulation of Currency and Credit—II*

Scope and methods of credit control—Structure of the Indian money market—Instruments of general credit control—Bank rate—Open market operations—Variable reserve requirements—Selective and direct credit regulation—Moral suasion . . . . . 20-48

## IV

Page

### *Supervision and Control of Banks*

Licensing—Capital, reserves and liquid assets—	
Branch expansion—Inspection—Amalgamations	
—Schemes of arrangement—Liquidation—Con-	
trol of issue of bank capital—Training in bank-	
ing—Banking development .. .. .	49-58.

## V

### *Banker to Government*

Agreement with the Central Government—	
Agreements with State Governments—Adminis-	
trative arrangements—Issue of new loans and	
Treasury bills—Ways and means advances—	
Assistance to the High Commission of India—	
Adviser to Governments on financial matters..	59-70.

## VI

### *The Reserve Bank and Rural Credit*

Evolution of rural credit policies—Recommendations of the Rural Banking Enquiry Committee, the Informal Conference and the All-India Rural Credit Survey Committee—Financial assistance provided by the Reserve Bank—	
Inspection of co-operative banks—Standing Advisory Committee on Agricultural Credit—	
Formulation of schemes for reorganisation—	
Training of co-operative personnel—Provisions governing the granting of rural credit by the	
Bank .. .. .	71-93

## VII

Page

### *The Reserve Bank and Industrial Finance*

Industrial Finance Corporation of India—State  
Financial Corporations—Banks and industrial  
finance—Refinance Corporation for Industry 94-104

## VIII

### *Exchange Control*

Bank's exchange obligations—Sterling area  
arrangements—Exchange control objectives—  
Authorised dealers—Remittances in foreign  
exchange—Inward capital remittances—Bullion  
—Export control—Export of jewellery, currency  
notes and securities—Statistical returns .. 105-115

## IX

*Economic and Statistical Research* 116-119

## X

### *Internal Organisation of the Bank*

Offices and branches of the Bank—Banking  
Department—Public Accounts—Public Debt—  
Deposit Accounts—Securities—Issue Depart-  
ment—Central Office Departments—Secre-  
tary's Office—Chief Accountant's Office  
—Inspection Department—Legal Division—Ex-  
change Control Department—Department of  
Banking Development—Industrial Finance De-  
partment—Agricultural Credit Department—  
Department of Banking Operations—Depart-  
ment of Research and Statistics .. .. 120-135

## XI

# Page *Weekly Statements, Balance Sheet and Publications*

Weekly statement of the Reserve Bank—Issue Department: liabilities and assets—Banking Department: liabilities and assets—Explanation of variations during a week—Analysis of variations over a year—Weekly statement of the consolidated position of scheduled banks—Explanation of weekly and annual variations—Income and expenditure of the Reserve Bank—Bank's publications	.. .. . 136-158
---	-----------------

## XII

<i>Conclusion</i>	.. .. . 159-161
Index	.. .. . 163-170

# I

## INTRODUCTION

### **Establishment of the Bank**

The Reserve Bank of India came into existence on April 1, 1935. This represented the culmination of a long series of efforts to set up an institution of this kind in the country. Perhaps the earliest reference to the need for setting up a central bank may be traced to a Despatch from Warren Hastings in 1773 recommending the establishment of 'General Bank of Bengal and Bihar.' There were several other sporadic suggestions later but it was not until the 'twenties of this century that the proposal assumed a definite shape. The urgent need for a central banking institution was recognised and when the three Presidency Banks were amalgamated in 1921 to form the Imperial Bank of India, it was hoped that this institution might develop into a full-fledged central bank. In fact, the Imperial Bank did perform certain central banking functions, such as, acting as banker to Government, although the issue of notes continued to be the direct responsibility of the Central Government. In 1926, the Royal Commission on Indian Currency and Finance (popularly known as the Hilton-Young Commission) felt that the dichotomy that then existed in the authority over currency and credit, with responsibility divided between the Government and the Imperial Bank of India and the possibility of inadequate integration between the policies pursued by them, represented an inherent weakness in the monetary system ; the Commission, therefore, recommended

the establishment of a central bank by charter on lines 'which experience had proved to be sound.' A bill giving effect to this recommendation was introduced in the Legislative Assembly in January 1927 but was dropped for constitutional reasons after it had passed through several stages. The question assumed importance again in 1933, with the publication of the White Paper on Indian Constitutional Reforms. According to paragraph 32 of the Introduction to the White Paper, the proposal for transfer of responsibility at the Centre from British to Indian hands was made dependent on the condition that a Reserve Bank, free from political influence, be established and be in successful operation. This revived the proposal for the setting up of a central bank. Accordingly, a fresh bill was introduced in the Indian Legislative Assembly on September 8, 1933, which was passed in due course, and received the Governor-General's assent on March 6, 1934. The Bank commenced operations on April 1, 1935. The separation of Burma from India and subsequent division of India into the Indian Union and Pakistan as well as the integration of the princely States with the Indian Union have, over the course of years, altered the area of operations of the Reserve Bank. After the separation of Burma in April 1937, the Reserve Bank of India functioned as the currency authority of that country till June 5, 1942 and as bankers to the Government of Burma till March 31, 1947. After the partition of the country, the Bank rendered central banking services to the Dominion of Pakistan till June 30, 1948.

#### **Originally Constituted as a Shareholders' Bank**

On the model of leading foreign central banks of the time, the Bank was originally constituted as a shareholders' bank with a share capital of Rs. 5 crores\*, divided into 5 lakhs fully paid-up shares of Rs. 100 each. The entire share capital

---

\* A crore=ten million; a rupee is now equivalent to 21 U.S. cents.



was, in the beginning, owned by private shareholders, with the exception of shares of the nominal value of Rs. 2,20,000 which were allotted to the Central Government (under Section 4(8) of the original Act\*) for disposal at par to Directors of the Central Board of the Bank seeking to obtain the minimum share qualification. However, in view of the public nature of its functions, it was considered desirable to incorporate in the Statute certain provisions governing the holding of shares and the rate of dividend to be paid to shareholders. Similarly, the Act laid down the qualification for membership of the Central Board of the Bank, the majority of which was to be elected by shareholders. It also provided for the appointment by the Central Government of the Governor and two Deputy Governors after considering recommendations made in that behalf by the Central Board. A further provision which sought to safeguard the public interest was one empowering the Government to supersede the Central Board if in its opinion the Board failed to carry out any of the obligations imposed on it by Statute.

### **Transfer to State Ownership**

In view of the need for close integration between its policies and those of Government, the question of State ownership of the Bank had been raised from time to time. It was only with the attainment of Independence, however, and in the changed climate of public opinion immediately thereafter, that the decision was taken to nationalise the Bank. In this connection, it is pertinent to note that in the early postwar years, several European central banks, including the Bank of England and the Bank of France, were nationalised. Accordingly, in terms of the Reserve Bank (Transfer to Public Ownership) Act 1948, the entire share capital

---

\* Unless otherwise specified, throughout this publication 'the Act' refers to the Reserve Bank of India Act, 1934.

of the Bank was acquired by the Central Government against compensation to shareholders [at Rs. 118-10-0 per share of Rs. 100 (nominal)]. The Government fixed January 1, 1949 as the date on which the shares of the Bank would be acquired by it, and as from that date, the Reserve Bank entered upon its career as a State-owned institution. The Act of 1948 empowered the Central Government to issue such directions to the Bank as it might, after consultation with the Governor of the Bank, consider necessary in the public interest. Otherwise it left the operational and other features of the Bank's organisation practically undisturbed. The Act also contained the minimum amendments necessary to give effect to the transfer of ownership as well as to other consequential changes including the change in the constitution of the Central and the Local Boards. Under the amended Act, all Directors of the Central Board, including the Governor and Deputy Governors, and all Members of the Local Boards are appointed by the Central Government.

### **Central Board and Local Boards**

The general superintendence and direction of the Bank's affairs at present is vested in the Central Board of Directors, consisting of 15 members, namely, the Governor and three Deputy Governors appointed by the Central Government under Section 8(*r*)(*a*) of the Act, four Directors nominated in terms of Section 8(*r*)(*b*) (one from each of the four Local Boards), six Directors under Section 8(*r*)(*c*) and one Government official under Section 8(*r*)(*d*) of the Act. The Directors nominated under Section 8(*r*)(*c*) hold office for four years and there is provision for their retirement by rotation, while the term of those appointed in terms of Section 8(*r*)(*b*) is related to their membership in the Local Boards. Meetings of the Central Board are required to be held at least six times in each year and not less than once in a quarter. As a matter

of practical convenience the Board has delegated some of its functions, by means of statutory regulations made under Section 58(2) of the Act, to a Committee which ordinarily meets weekly, at the office of the Bank at which the Governor has his headquarters for the time being, to attend to the current business of the Bank. For each of the four regional areas of the country, there is a Local Board with headquarters at Bombay, Calcutta, Madras and New Delhi. Local Boards consist of five members appointed by the Central Government for a term of 4 years to represent, as far as possible, territorial and economic interests and those of co-operative and indigenous banks. The functions of Local Boards are to advise the Central Board on such matters as may generally or specifically be referred to them and to perform such duties as the Central Board may by regulations delegate to them.

### **Internal Organisation and Management**

The Chairman of the Central Board of Directors of the Bank and its chief executive authority is the Governor (and in his absence the Deputy Governor nominated by him in this behalf) ; the Governor exercises all powers which may be exercised by the Bank, subject to such regulations as the Central Board might make. The Governor is assisted in the performance of his duties by three Deputy Governors, each of whom is in charge of certain spheres of operations of the Bank. Under the present administrative arrangements, one of the Deputy Governors is in charge of matters relating to note issue, exchange control, public accounts, deposit accounts, open market operations, public debt and general administration; another is in charge of banking operations, while the third Deputy Governor looks after the fields of rural credit, banking development and industrial finance. The Governor and the Deputy Governors hold office for such periods not exceeding five years as may be fixed by the Central

Government at the time of their appointment and are eligible for re-appointment. The work of banking, financial and economic intelligence, research and advice is organised under the Bank's Principal Adviser and is integrated with all the operational activities of the Bank.

The central office of the Bank is situated in Bombay and consists, besides the Chief Accountant's Office, the Secretary's Office and the Legal Division, of various specialised departments, namely, the Agricultural Credit Department, the Department of Banking Operations, the Department of Banking Development, the Industrial Finance Department, the Exchange Control Department and the Department of Research and Statistics. The departments of the central office assist the Bank management in the formulation of the Bank's policies and advice to Government on financial, banking and economic matters. The activities of these departments are described in detail in chapters IX and X.

For satisfactory performance throughout the country of the various functions assigned to the Bank, it has established local offices/branches, comprising the Banking and Issue Departments, which are located at Bangalore, Bombay, Calcutta, Kanpur, Madras, Nagpur and New Delhi. At other places, it is represented by its agents, viz., the State Bank of India, the State Bank of Hyderabad and the Bank of Mysore. Besides, the Reserve Bank maintains a branch of the Banking Department in London. In recent years, the work of inspection and supervision of the operations of commercial and co-operative banks has grown in importance and regional offices of the Department of Banking Operations have been set up at all the above places (excepting Bangalore) and at Trivandrum. Regional offices of the

Agricultural Credit Department are located at Calcutta, Madras and New Delhi and those of the Exchange Control Department in these three centres and at Kanpur.

### **Main Functions of the Bank**

① The primary function of the Reserve Bank is to regulate the monetary system of the country so as to promote the maintenance of economic stability and to assist the growth of the economy within the framework of the general economic policy of the Government. According to the preamble to the Reserve Bank of India Act, 1934, the main function of the Bank is “to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.” The regulation of the monetary mechanism comprises the control of the currency, banking and credit system of the country. For this purpose, the Bank is given the sole right of note issue and it also acts as banker to the commercial banks and to some other financial institutions including State co-operative banks, holding custody of their cash reserves and granting them accommodation in a discretionary way. For the performance of its duties as the regulator of credit, the Bank possesses not only the usual instruments of general credit control, such as, bank rate, open market operations, and the power to vary reserve requirements of banks but also extensive powers of selective and direct credit regulation under the Banking Companies Act, 1949. Another important function of the Bank, and historically the oldest, relates to the conduct of the banking and financial operations of the Government. ② The Bank has also an important role to play in the maintenance of the exchange value of the rupee in view of the close inter-dependence of international trade and

national economic growth and well-being. This is of course an aspect of the wider responsibility of the central bank for the maintenance of economic and financial stability. It is now generally agreed that basically there is no conflict between domestic stability and external stability and that the two, more or less, go hand in hand. For the performance of this function, the Reserve Bank has the custody and management of the country's international reserves. It also exercises control over payments and receipts for international transactions in conformity with the trade control which is operated by Government.

With the task of economic development assuming a new urgency and impetus, the range of functions of the Bank has come to be steadily enlarged. The Bank now performs a variety of developmental and promotional functions which in the past were regarded as being outside the normal purview of central banking. The Bank's responsibilities comprise, in addition to the traditional regulation of credit, the development of an adequate and sound banking system for catering to the needs not only of trade and commerce but also of agriculture and industry, the institutional arrangements for the financing of which were very slow to develop. Although the expansion of facilities for the provision of agricultural credit has been a statutory obligation of the Bank ever since its inception, progress in this field has become striking only during the last few years. The Bank has also taken the initiative for widening the facilities for industrial finance. By virtue of its position as regulator of currency and credit and banker to Government, the Bank's role as adviser to Government on economic matters in general and on financial problems in particular has been of growing importance.

The Bank collects data on the operations of commercial and co-operative banks, on balance of payments, company and Government finances and security markets and the statistics and the analyses based on them are published periodically in the Bank's publications. The Bank brings out every month a Bulletin (with a weekly Statistical Supplement) and annually a number of reports reviewing general economic, financial and banking developments, including the Bank's operations and policies, such as, the Report of the Central Board of Directors, the Report on the Trend and Progress of Banking in India, the Review of the Co-operative Movement in India (biennial) and the Report on Currency and Finance. The first two are statutory reports which are required to be submitted to the Government of India in terms of Section 53(2) of the Reserve Bank of India Act, 1934, and Section 36(2) of the Banking Companies Act, 1949, respectively.

The Bank's functions are thus wide and varied, representing the super-imposition of new lines of activity on orthodox central banking functions. To a detailed description of the functions of the Bank and the adaptation of its internal organisation for the discharge of this complex range of functions we now turn.

## II

# REGULATION OF CURRENCY AND CREDIT - I

### General Observations

The Reserve Bank is the sole authority for the issue of currency in the country (other than one rupee coins and notes and subsidiary coin the magnitude of which is relatively small). Monetary and credit policy consists essentially in regulating the volume of money supply with the public to suit the changing requirements of the economy. The Reserve Bank's policies, however, often influence monetary and economic trends also through the considerable psychological effects they produce, being indicative of a changed appraisal of the general economic outlook of the country. With the formal control over the supply of currency, the Bank is in a position to influence the volume of money supply with the public. The creation of deposit money by the banks is basically dependent on their cash reserves, for which the ultimate source is also the Reserve Bank. There are various means at the disposal of the Bank for regulating the supply of money, which will be discussed in this and the following chapters. Many of the instruments of regulation available to the Reserve Bank of India are those which central banks normally possess; they include bank rate variations, open market operations and variable reserve requirements. These instruments work by affecting the credit base directly as well as through varying the availability and cost of Reserve Bank accommo-



dition. Besides, the Reserve Bank possesses large powers of direct and selective regulation of the banking system, in terms of the Banking Companies Act, 1949. It should, however, be emphasised that in practice the regulation of money supply is not wholly or even largely under the Bank's control. It is considerably affected by the budgetary operations of the Government, over which the Bank has no control, although the Bank has opportunities of tendering advice to Government on this matter. This limitation also applies to the impact of the country's international transactions which is yet another determinant of the money supply. On the whole, the broad pattern of Government's economic policy is much more important as a regulator of the general monetary situation than the central bank's own policies, particularly as there is no statutory limit on the extension of credit by the Bank to Government. This emphasises the need for Government's co-operation in ensuring successful implementation of the Bank's responsibility for maintaining monetary stability.

With these general observations, we may proceed to a fuller description of the regulation of currency and credit. In this chapter, we shall discuss the statutory requirements and the administrative arrangements regarding the issue of currency. The next chapter deals with the regulation of credit by the Reserve Bank.

### **Statutory Provisions relating to Note Issue**

In terms of the Reserve Bank of India Act, the affairs of the Bank relating to note issue and general banking business are conducted through two separate departments, *viz.*, the Issue and the Banking Departments. The assets of the Issue Department which form the backing for the note issue are kept wholly distinct from those of the

Banking Department. In practice, however, this distinction has little economic significance.

The actual issue of currency to the public and its withdrawal from circulation takes place through the Banking Department of the Bank. The Issue Department issues or receives bank notes only in exchange for other bank notes or for such coin, bullion or securities as are permitted by the Act to form part of the assets of the department. According to Section 33 of the Act, the assets of the Issue Department against which bank notes are issued are to consist of gold coin and bullion, foreign securities, rupee coin, Government of India rupee securities and such bills of exchange and promissory notes payable in India as are eligible for purchase by the Bank. In practice, such bills and promissory notes have not figured as assets due to the lack of a proper bill market. The original Act prescribed a proportional reserve of gold and foreign securities against note issue, whereby, of the total assets, not less than 40 per cent was to consist of gold coin and bullion, and foreign securities, with the proviso that gold coin and gold bullion was at any time not to be less than forty crores of rupees in value. This requirement remained unchanged for over twenty years. The principle of linking foreign reserves to note issue is in a sense a relic of the time when the international gold standard was in force. The general trend of central banking legislation during the war and post-war years, on the other hand, has been to delink foreign reserves from note issue. It has come to be universally recognised that the main purpose of foreign exchange reserves is to enable the country to tide over unfavourable turns in the balance of payments. In India, the rapid progress in economic activity under the impetus of the development plans and the expansion in the

monetised sector of the economy have called for a large expansion of currency. The financing of the Plan has also necessitated heavy drafts on the foreign reserves held by the Bank. In anticipation of these developments, the Reserve Bank of India (Amendment) Act of 1956, which came into force from October 6, 1956, provided for substitution of the proportional reserve system by a minimum of foreign reserves in absolute amount *viz.*, Rs. 400 crores in foreign securities and Rs. 115 crores in gold coin and bullion or a total of Rs. 515 crores. Also, whereas prior to October 6, 1956 gold held by the Bank was valued at the rate of 8.47512 grains per rupee or Rs. 21.24 per tola,\* the amending Act provided for the revaluation of gold at the official parity price agreed to by the International Monetary Fund, i.e. at the rate of 2.88 grains of fine gold per rupee or Rs. 62.50 per tola. This change was purely formal and was designed to reflect the value of the gold holdings of the Bank in terms of the official parity price. In consequence, simultaneously with the revaluation of gold, the minimum reserve to be held in gold was fixed at Rs. 115 crores, instead of at Rs. 40 crores. The provisions regarding the maintenance of assets were further amended on October 31, 1957, through the promulgation of an ordinance, entitled "the Reserve Bank of India (Amendment) Ordinance, 1957", since replaced by the Reserve Bank of India (Second Amendment) Act, 1957. This Act prescribed that the aggregate value of gold coin, gold bullion and foreign securities held in the Issue Department at any time should not be less than Rs. 200 crores; of this, the value of gold (bullion plus coin) should not be less than Rs. 115 crores in value, the same as prior to the promulgation of the Ordinance.

---

\* A tola is three-eighths of an ounce.

As in other central bank statutes, provision has been made for suspension of the requirements regarding reserves of foreign exchange to meet unforeseen contingencies. The Second Amendment Act of 1957 empowers the Reserve Bank, with the previous sanction of the Central Government, to dispense with holding foreign securities at all; it must, however, have gold equivalent to Rs. 115 crores.

#### **Administrative Arrangements in regard to the Issue of Currency : Currency Chests.**

The Reserve Bank is charged with the responsibility of providing an adequate supply of currency for facilitating the transactions of the Government and the exchange and remittance requirements of banks and the public. In addition to issue of notes to the Banking Department, the Issue Department issues to the public rupee coin on demand in exchange for notes, and notes in exchange for coin. For the discharge of these functions, the Bank has made comprehensive administrative arrangements. At present, the Bank maintains seven offices of the Issue Department at Bangalore, Bombay, Calcutta, Kanpur, Madras, Nagpur, and New Delhi, two sub-offices at Gauhati and Hyderabad, and currency chests with (i) its agencies, i.e., the branches of the State Bank of India, the State Bank of Hyderabad and the Bank of Mysore and with (ii) Government treasuries and sub-treasuries, where, in the absence of a branch of one of the Bank's agents, Government business is transacted by them. The currency chests number about 1,300 and cover all important centres in the country. Furthermore, the Bank has agreed to provide additional currency chests at different places at the request of its agents, (*viz.*, the State Bank of India, the State Bank of Hyderabad and the Bank of Mysore), as also at places suggested by State

Governments with the previous sanction of the Central Government. The Issue Department also maintains small coin depots belonging to Government for supplying subsidiary coins to the public.

Currency chests are receptacles in which stocks of new or re-issuable notes are stored along with rupee coin. The treasury or agency of the Bank is provided with a currency chest to enable it to withdraw funds therefrom according to its requirements when its payments on a day exceed its own balances or deposit into it any excess funds received. The availability of the chests, thus, obviates the necessity of physical transfer of cash at frequent intervals from one place to another, although such remittances may be necessary in the event of persistent demand for payments in excess of the receipts at a centre, for instance, at a treasury located near the site of a project, or *vice versa*. The mechanism of currency chests is, thus, of particular assistance to the Central and State Governments, inasmuch as it enables the treasuries to work with relatively small balances. The chests further enable exchange of rupee coin for notes and supply of notes of lower denominations for higher denominations and *vice versa*, or issue of new notes for old and soiled notes. The currency chests also serve as the basis for the provision of remittance facilities to banks and the public,

Notes held in the currency chests are not deemed to be in circulation, while the rupee coin (and one rupee notes) held in the chests form part of the assets of the Issue Department. A deposit of notes in the currency chest thus means a reduction in the amount of notes in circulation, while a deposit of rupee coin into the chest means an increase in the amount of coin forming part of the reserve held against notes in circulation. On the other hand,

the withdrawal of notes from a currency chest means an increase in the amount of notes in circulation, whereas the withdrawal of rupee coin from a currency chest would result in a reduction in the amount of coin forming part of the reserve held against notes in circulation. A deposit of notes or coin into one currency chest thus enables the issue at another currency chest of notes or coin upto the amount of the deposit without the actual remittance of notes or coin and also without an actual change in the amount of coin held as part of the reserve against notes in circulation.

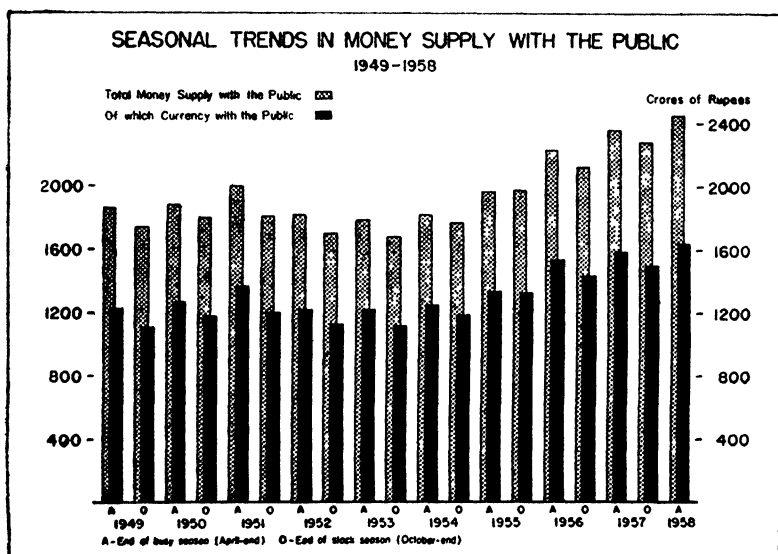
### Seasonal and other Variations in Currency Circulation

For years, a noteworthy feature of the Indian economy has been the seasonal character of the movements in currency. These are reflected in an almost rhythmic ebb and flow of currency in the slack and busy seasons which are related mainly to the periods of agricultural harvests and movements of produce. Seasonal movements of currency take place in industrial countries also, *e.g.*, during Christmas or the holiday season, but the 'seasons' pertain to unusual movements in the expending of incomes rather than in their accrual. What is significant in India is the division of the year into two seasons of fairly equal length. This stems mainly from the character of the economy and the predominance of cash transactions. Broadly speaking, the busy season, requiring more currency, begins sometime in October when crops are harvested and moved, and lasts till about the end of April. It is of interest to note in this connection that, even during the last war, when there was continuous expansion of currency (and no slack season contraction), the incidence of the slack season was nevertheless felt in that the expansion of currency in the slack season was smaller than in the busy season period. With the end of the war

and readjustment to peace-time conditions, the seasonal pattern again became increasingly evident, and in the early postwar years, currency was regularly absorbed in the busy season and returned during the slack season. In recent years, however, the growth in the secondary and tertiary sectors accelerated by the planned development has acted to blur the seasonal variations to some extent.

At this stage, the broad mechanics of the seasonal expansion and contraction of currency may be briefly explained. In the busy season, there is a net efflux of cash from the commercial banks representing the withdrawal by traders and industrialists of their own balances with banks or of proceeds of loans sanctioned to them for the purchase of their requirements of trade stocks and of materials for manufacturing. To meet the requirements of the public, the banks, to some extent, draw on their cash balances including balances with the Reserve Bank, which are replenished as and when necessary by borrowing from the Reserve Bank and/or selling investments to the Bank or in the market. In the process of meeting the cash withdrawals by banks and similar demand for cash by Government agencies and others in payment of cheques on Government account, the cash holdings of the Banking Department of the Bank get depleted below what is considered a minimum level for its normal working requirements. To recoup its cash resources, the Banking Department transfers to the Issue Department in exchange for an equivalent amount of cash, eligible assets, such as, sterling securities or rupee securities. The supplies of these in the Banking Department increase in the very process of meeting the greater demand for cash by the banks or by Government agencies. Thus, an increased demand for cash from the public is first reflected in the depletion of cash balances of the commercial banks and through them in the

cash balances of the Banking Department, which ultimately leads to an expansion of currency through transfer of eligible securities from the Banking to the Issue Department. An increased demand for cash by the public, following larger disbursements by Government agencies is reflected in a decline of Government balances with the Bank with a corresponding fall in the cash balances of the Banking Department. If Government do not have sufficient balances, they may either obtain ways and means advances from the Bank or issue to the Bank Treasury bills (see chapter V).



During the slack season the reverse process takes place. With the purchases of industrial and other goods by the rural population, there is a return-flow of cash to the urban areas. Consequent on the return of currency in circulation or repayment of loans, an excess cash balance is built up with the commercial banks which in turn is transferred to the Banking Department of the Reserve Bank either in repayment of loans or for purposes of buying securities or for in-



creasing their reserves kept with the Bank. The effect of all these transactions is a rise in the cash balance of the Banking Department. The amount which is considered in excess of what the Banking Department usually keeps as cash balance is then returned to the Issue Department in exchange for a corresponding amount of assets. For the Banking Department, there has taken place the substitution of other assets for notes ; for the Issue Department there is a simultaneous decline of assets and liabilities ( i. e. notes issued ). At times of excess of Government receipts over disbursements there is a rise in Government balances with the Banking Department, with a corresponding rise in the cash balance of the Banking Department. At this stage, Government balances are reduced to the extent they are considered excessive, by repaying ways and means advances or by cancelling (i.e. redeeming) Treasury bills earlier sold to the Bank.

### III

## REGULATION OF CURRENCY AND CREDIT-II

### Scope and Methods of Credit Control

Regulation of credit essentially involves regulation of the assets pattern of credit institutions, which are in direct relationship with the Reserve Bank, principally commercial banks. The item among commercial bank assets which is of special significance in this connection is the credit extended by banks to their constituents, which is the sum of what are usually called 'loans' and 'discounts'. The capacity of banks to provide credit depends on their cash reserves (which include their balances held with the Reserve Bank). These increase either through a rise in the deposit resources of banks or by their borrowing from the Reserve Bank. Regulation of credit by the Reserve Bank, therefore, implies regulation of the quantum of reserves of banks. If the Bank desires to bring about expansion of credit, it will adopt measures to augment bank reserves, and likewise if credit is to be restricted, it will attempt to curtail the reserves. At least a portion of the credit which banks extend is withdrawn in cash (currency), and this portion is greater the larger the importance of currency relatively to deposit money in the money supply of a country.

Deposits with banks may originate in two ways—either through 'passive' creation or 'active' creation. The former occurs when banks open deposit accounts for customers

against the receipt of value either in cash or cheques on other banks. The latter takes place mainly when banks create deposits by making loans. In the first of these instances there is no addition to the quantum of money though its distribution may undergo a change, whereas in the second instance the supply of money is augmented. When a bank extends credit, it would result partly in a rise in deposits either with itself or with other banking institutions.

Even in advanced countries with a widespread banking habit, there is a limit to the process of deposit expansion, which is set by various economic and institutional factors. In under-developed countries, the scope for credit creation by banks is much less than in countries with well-developed banking systems. <sup>6</sup>In India, currency forms a very large part (about two-thirds) of the money supply.<sup>7</sup> This means that each stage of credit creation by banks would result in a considerable outgo of currency, though not necessarily in the above ratio. A major portion of the cash generally percolates in the economy without returning to the banking system in the form of deposits.<sup>8</sup> This reduces considerably the capacity of the banking system to create fresh credits on the basis of an increase in its reserves, and correspondingly limits its power of multiple expansion of credit.<sup>9</sup>

Though the scope for effective application of monetary policy is comparatively more limited here than in developed economies, it is increasing with the diversification of the economy and the growth of investment and organised money markets, the last being positively aided by the Reserve Bank.

### Structure of the Indian Money Market

A well-developed money market is the basis for an effective monetary policy. The money market may be de-

financed as the centre for dealings, mainly of short-term character, in monetary assets; it meets the short-term requirements of borrowers and provides liquidity or cash to the lenders. It is the place where short-term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers, again comprising institutions and individuals and also the Government itself. Naturally, the Reserve Bank has a close link with the money market. In fact, the Reserve Bank can be regarded as an important constituent of the money market; essentially it is a residual source of supply of funds and it is this which invests the Bank's operations with great significance.

The outstanding characteristic of the Indian money market is its dichotomy; it comprises what may broadly be termed as the organised and unorganised market, with a divergence in the structure of interest rates. The organised market comprises the Reserve Bank, the State Bank of India, foreign banks and the Indian joint stock banks. Quasi-Government bodies and large-sized joint stock companies also participate in the operations of the money market as lenders, the money lent by them being usually termed 'house money'. Then there are the financial intermediaries, such as, call loan brokers, general finance and stock brokers. The core of the Indian money market is the inter-bank call money market. Although the magnitude of funds dealt in this market is not large in relation to the deposit resources of banks, perhaps this is the most sensitive sector of the money market. The State Bank of India does not participate in the call money market but other banks obtain loans and advances from this bank. In recent years, however, banks have increasingly directed their demands for accommodation to the Reserve Bank.

In the Indian system, there is no true market for bills, either commercial or Treasury; nor is there any acceptance business. Nevertheless it could be said that the Indian money market is "comparatively well developed in terms of organised relationships and specialisation of function"\*.

The unorganised market, which itself is not homogeneous, is largely made up of what are known as 'indigenous' bankers. In this market, there is no clear demarcation between short-term and long-term finance, nor even between the purposes of finance, inasmuch as there is usually nothing on a *hundi* (which is the indigenous bill of exchange) to indicate whether it is for financing trade or for providing financial accommodation; in other words, whether it is a genuine trade bill or financial paper. By and large, these bills are accommodation bills. In view of the paucity of trade bills, there is no discount market in India, though banks, especially the foreign banks, discount bills. Trade bills are usually carried until maturity (for example, import bills) or rediscounted in London (for example, export bills). The factors that have been mentioned as impeding the growth of a bill market in India are the lack of uniformity in drawing bills as between different parts of the country, the practice of extending credit not subject to any specified time limit but collected by travelling salesmen, the large use of cash credit as the main form of borrowing from banks which in India have a wide net-work of branch organisation, the preference for cash transactions in certain lines of activity, the absence of adequate warehousing facilities for storing agricultural produce and the high stamp duty on usance bills. Some of these difficulties, especially in the matter of provision of warehousing facilities, are being overcome as a result of Government initiative. It is, however, doubtful if a bill

---

\*Monthly Review of the Federal Reserve Bank of New York, July 1957.

market comparable to what obtains in certain advanced western countries will ever grow up, as the preference for the elastic form of cash credit is as deep rooted in business custom as the antipathy to borrowing for a fixed term is strong in the countryside. Indeed, the flexible and convenient mechanism of borrowing through cash credit or overdraft arrangements remains the predominant form of borrowing in other countries as well, and the peculiar historical context related to shipment schedules, etc., which favoured the growth of an active bill market in some countries is not likely to be reproduced on a significant scale. Nor is there such innate superiority in the form of credit represented by bills that the lack of a bill market should continue to be regarded as a serious shortcoming and its creation an important objective of policy for the Reserve Bank.

The money market structure in India, loose as it is, is not entirely unco-ordinated. The indigenous bankers enjoy rediscount facilities from the State Bank of India and other commercial banks which in turn have access to the Reserve Bank. Recourse on the part of the indigenous money market to the resources of the organised market takes place usually during the busy season when the crops are being harvested and moved from the producer to the wholesaler.

The co-operative credit institutions occupy a somewhat intermediate position between the organised and the unorganised sectors of the money market. The co-operative credit institutions were set up mainly with a view to supplanting the indigenous sources of rural credit, particularly the moneylenders, since the credit provided by the moneylenders was subject to many drawbacks, especially high interest rates. While this objective has remained far from

being fulfilled, considerable progress has been made in the last few years in integrating the co-operative credit system into the organised money market. Thus, the scale of assistance which the Reserve Bank has been providing to the co-operative sector has been rising. Co-operative institutions are also being brought into close contact with the commercial banking system, especially the State Bank of India since its inception on July 1, 1955.

A brief account may now be given of the Indian banking structure itself. With the inauguration of the Reserve Bank, joint stock banks in India came to be classified under two main groups, *viz.*, scheduled and non-scheduled banks. Scheduled banks, as the term implies, are those banks which are included in the Second Schedule to the Reserve Bank of India Act and may be broadly compared to the member banks in the U.S.A. They are eligible for certain facilities, especially the facility of obtaining accommodation from the Reserve Bank and correspondingly bear certain obligations towards the Bank. Section 42(6) (a) of the Reserve Bank of India Act lays down the conditions which a bank must fulfil to qualify for inclusion in the Second Schedule. These are: (1) the bank must have paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs,\* (2) it must satisfy the Bank that its affairs are not being conducted in a manner detrimental to the interest of its depositors and (3) it must be a company as defined in the Companies Act, 1956 or an institution notified by the Central Government in this behalf or a corporation or a company incorporated by or under any law in force in any place outside India. On the Bank being satisfied by an inspection of the bank's books and accounts or otherwise that these conditions are fulfilled, it may direct the inclusion of the bank in the Second

---

\* Ten lakhs = one million.

Schedule. The Bank is also empowered to exclude from the Schedule any bank the aggregate value of whose paid-up capital and reserves falls below Rs. 5 lakhs, or which in the Bank's opinion is conducting its affairs to the detriment of the depositors' interest or which goes into liquidation or otherwise ceases to transact banking business.

As at the end of March 1958, there were 92 banks included in the Second Schedule out of a total number of about 400 banking companies working in the country. Scheduled banks account for by far the greater part of the banking business in India, their share in total deposits of all banks being 97 per cent, and in the total credit outstanding also about the same. Scheduled banks form a heterogeneous group. Among them, the State Bank of India stands in a class by itself; it is the biggest commercial bank, accounting for Rs. 419 crores or 30 per cent of the *net* deposits of all scheduled banks (Rs. 1,382 crores) as at the end of March 1958. It has close association with the Reserve Bank, and by virtue of its being an agent of the Reserve Bank it enjoys currency chest facilities at most of its branches. Another category of scheduled banks comprises sixteen foreign banks, which specialise in the finance of foreign trade; these banks have extended their activities to internal trade and industry also and to this extent they form an integral part of the domestic banking system. The *net* deposits of these banks amounted to Rs. 194 crores or 14 per cent. The Indian scheduled banks (other than the State Bank of India) number seventy-five and vary in size from banks with deposits of over Rs. 100 crores to those with deposits amounting to hardly a few lakhs of rupees and with paid-up capital and reserves just adequate for qualification for inclusion in the Second Schedule; their deposits at the end of March 1958 amounted to Rs. 769 crores or 56 per cent of the deposits of all scheduled banks.



Non-scheduled banks as the term implies, are banking companies other than those included in the Second Schedule to the Reserve Bank of India Act. These numbered about 300 at the end of March 1958. A majority of them are small-sized units restricting their activities to small localities. Generally, their paid-up capital and reserves are less than Rs. 5 lakhs each, although there are some non-scheduled banks with paid-up capital and reserves above this amount. Some of the non-scheduled banks maintain cash balances with the Reserve Bank on a voluntary basis. Generally speaking, compared to scheduled banks, these banks pay a higher rate of interest on their deposits, and their advances rates are also higher. Their time deposits form about two-thirds of their total deposits as compared to about half in the case of scheduled banks. The *net* deposits of these banks at the end of March 1958 amounted to only Rs. 46 crores as compared to Rs. 1,382 crores in respect of scheduled banks.

### **Instruments of General Credit Control**

The statutory basis for the regulation of the credit system by the Bank is embodied in the Reserve Bank of India Act and the Banking Companies Act. The former Act confers on the Bank the usual powers available to central banks generally, while the latter provides special powers of direct regulation of the operations of commercial banks. (In considering the usual instruments of what is known as general or *quantitative* credit control, *viz* bank rate, also known as discount rate, open market operations and variable reserve requirements, it is important to stress the point that these are closely inter-related and should be operated in co-ordination.)<sup>11</sup> All of them affect the level of bank reserves.<sup>12</sup> Open market operations and reserve requirements directly affect the 'reserve base' while the bank rate pro-

duces its impact indirectly through variation in the cost of acquiring the reserves. <sup>1)</sup> The use of one instrument rather than another at any point of time is determined by the nature of the situation and the range of influence it is desired to wield as well as the rapidity with which the change should be brought about. Open market operations, for instance, are suited to carry out day-to-day adjustments on even the smallest scale. <sup>2)</sup> Reserve requirements produce an impact at once, by a mere stroke of pen as it were, and would affect banks generally. The effects of bank rate are not confined to the banking system and the short-term money market; they produce wider repercussions on the economy as a whole. <sup>3)</sup>

### Bank Rate

Discount rate policy has been defined "as the varying of the terms and of the conditions, in the broadest sense, under which the market may have temporary access to the central bank through *discounts* of selected short-term assets or through *secured advances*." Thus, discount policy seeks to affect both the cost and the availability of credit. The availability depends largely on the statutory requirements regarding the eligibility of bills for discounting and of securities as collateral for advances, as also the maximum period for which the credit is available.

The provisions of the Reserve Bank of India Act regarding the grant of accommodation to scheduled banks may now be described; details regarding the provision of credit to the co-operative sector will be discussed separately in chapter VI.

It was mentioned earlier that the Bank's credit extension takes the form of rediscount of eligible bills or advances against eligible security. The provisions in this regard are laid down in Section 17 of the Reserve Bank of India Act. The types of paper eligible for *rediscount* with the Reserve Bank are described in the undernoted sub-sections, which empower the Bank to conduct the following business:

17 (2)(a): the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and *arising out of bona fide commercial or trade transactions\** bearing two or more good signatures, one of which shall be that of a scheduled bank or a State co-operative bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;

17(2)(b): the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank or a State co-operative bank and drawn or issued *for the purpose of financing seasonal agricultural operations or the marketing of crops\**, and maturing within fifteen months from the date of such purchase or rediscount, exclusive of days of grace ;

Explanation.— For the purposes of this sub-clause,

- (i) the expression "agricultural operations" includes animal husbandry and allied activities jointly undertaken with agricultural operations;

---

\* Italics supplied.

- (ii) "crops" include products of agricultural operations;
- (iii) the expression "marketing of crops" includes the processing of crops prior to marketing by agricultural producers or any organisation of such producers.

17(2)(c): the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled bank and *issued or drawn for the purpose of holding or trading in securities of the Central Government, or a State Government,\** and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

17(3)(b): the purchase, sale and rediscount of bills of exchange (including Treasury bills) drawn in or on any place in any country outside India which is a member of the International Monetary Fund and maturing within ninety days from the date of purchase: provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank.

The bills of exchange referred to in all the above subsections should have a fixed maturity, not exceeding 90 days (15 months in the case of agricultural bills), excluding days of grace, from the date of purchase or rediscount by the Reserve Bank. In other words, a bill of exchange or a promissory note must, at the time of rediscount or purchase by the Reserve Bank, have a definite currency embodied in the instrument itself and in case such an instrument is payable on demand, it must be duly converted into a time bill/note before it is acceptable under this section.

---

\* Italics supplied.

However, in view of the lack of a well-developed and properly organised bill market, very little use has been made of the rediscount function so far. The Bank's assistance to the banking system has been made available, in the main, through the alternative facilities for *advances* from the Reserve Bank. The advances which are authorised under Section 17(4) of the Act are repayable on demand or at fixed periods not exceeding 90 days and are meant for the purpose of financing short-term (seasonal) trade transactions. They are available against the following types of collateral:

(a) Stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any Act of Parliament of the U.K. or by any law for the time being in force in India (Section 17(4)(a));

(b) Gold or silver or documents of title to the same (Section 17(4)(b));

(c) Such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank or as are fully guaranteed as to the repayment of the principal and the payment of interest by a State Government (Section 17(4)(c));

(d) Promissory notes of any scheduled bank or State co-operative bank supported by documents of title to goods, such documents having been transferred, assigned or pledged to any such bank as security for a loan or advance made for *bona fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops (Section 17(4)(d)). Documents of title to goods as defined in Section 2 of the Indian Sale of Goods Act include such instruments as bills of lading, dock warrants, warehouse-keeper's certificates, railway receipts, etc. It

may be noted that the Bank can make an advance under this sub-section only against promissory notes supported by 'documents of title to goods' and not 'goods' themselves; the acceptance of goods as security involves administrative difficulties and is also not in accordance with common central banking practice.

In addition to these credit facilities available normally, the Act provides, during occasions of emergency, for short-term loans being made by the Bank not only against eligible security but also "against such other form of security as the Bank may consider sufficient" [Section 18(r)(3)]. The intention of this section is to enable the Bank to make an advance to any bank in times of emergency which might make it necessary or expedient for the Bank to advance or discount directly, notwithstanding the limitations imposed by conditions of eligibility. Since 1949 this emergency provision has been made applicable to non-scheduled banks also.

In practice, however, advances to scheduled banks have been made mainly under the provisions of only two sub-sections of Section 17: against trustee (mainly Central Government) securities (Section 17(4)(a)) and since 1952, with the introduction of the Bill Market Scheme (which is described later), against demand promissory notes executed by scheduled banks and supported by usance promissory notes of the latter's constituents (Section 17(4)(c)). Owing to lack of warehousing facilities on an adequate scale, advances against promissory notes supported by documents of title to goods (Section 17(4)(d)) have been of little practical account so far.

For a long time since the establishment of the Reserve Bank, scheduled banks had very little recourse to its credit facilities. Thus, the average amount

outstanding under 'other loans and advances' of the Bank, which mainly represent the Bank's financial assistance to scheduled banks and State co-operative banks, was Rs. 2 lakhs only in 1938-39 and Rs. 21 lakhs in 1947-48. This was partly because of the traditional reluctance on the part of banks to approach the Reserve Bank and partly because the easy money conditions which prevailed at the time of the inauguration of the Bank and which continued during the war and early post-war years rendered such resort to the Bank unnecessary. During the war years, banks had accumulated large portfolios of Government securities. Also, bank deposits had grown and with outlets for private investment severely restricted, the banks had built up large liquid balances. In the post-war years, when the demand for credit began to rise, banks preferred to meet it by sales of securities which, in terms of the cheap money policy prevalent at the time, were readily absorbed by the Bank, rather than through rediscounts with or loans from the Bank. Only in exceptional cases did banks approach the Reserve Bank and borrow by pledging Government securities, and the magnitude of such borrowing remained small. Since the beginning of 1952, however, banks have turned to the Reserve Bank for accommodation on a large scale. Apart from the growing demand for credit on account of the rising tempo of economic development in the country, the increased recourse to borrowing from the Bank is explained by the change in the Bank's policy regarding open market operations together with the introduction of a new facility for the banks to borrow from the Bank, *viz.*, the Bill Market Scheme.

In mid-November 1951, with a view to curbing excessive credit expansion, the Reserve Bank put up the bank rate from 3 to  $3\frac{1}{2}$  per cent; at the same time it announced that it would not, save in exceptional circumstances, *buy*

Government securities for meeting the seasonal requirements of scheduled banks but that it would, as a normal practice, make *advances* against Government and other approved securities at the bank rate.

The Bill Market Scheme was introduced in January 1952. Broadly, it followed the system that prevailed prior to the establishment of the Reserve Bank, under which the Imperial Bank of India could borrow, during the busy season, funds from the Currency Department against internal bills or *hundies* drawn for financing *bona fide* trade or by the conversion of advances granted for the same purpose into *usance* bills. Under the Scheme, the Reserve Bank undertook to make *demand* loans to eligible scheduled banks against the security of *usance* promissory notes of their constituents in terms of Section 17 (4) (c) of the Reserve Bank of India Act. For this purpose, banks are required to convert the *demand* promissory notes obtained by them from their constituents in respect of loans, overdrafts and cash credits granted by them into *usance* promissory notes maturing within ninety days. It may be noted in this connection that the Reserve Bank is precluded from making advances to scheduled banks on their own promissory notes supported by the demand promissory notes of their constituents inasmuch as such demand promissory notes are not eligible paper under Section 17(2)(a). The Scheme, in other words, provides for the lodgement of bills as security for *advances* from the Reserve Bank and not for their *rediscount* with it. In view of this, it is open for the borrowing banks to withdraw any of the bills lodged as also to replace them by other eligible bills. The banks are thus enabled to minimise interest charges by borrowing according to their needs and by remitting spare funds to reduce their indebtedness. For the constituents of the banks, the Scheme com-

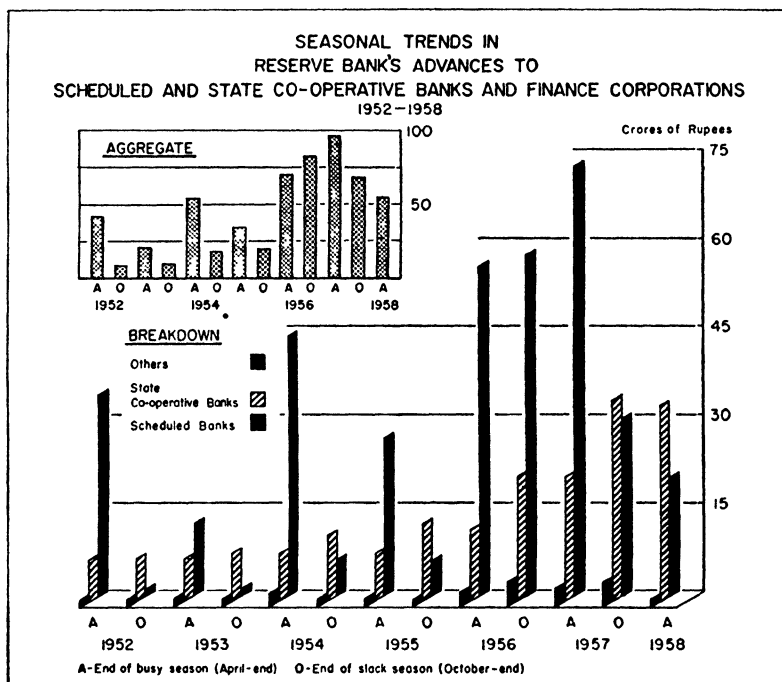


bins the advantages of the cash credit system with those of the bill of exchange, permitting the borrower to make withdrawals and repayments into the account as often as before. Thus, the Bill Market Scheme represents an attempt to fit the existing banking practices into the requirements of the Reserve Bank of India Act.

The Bill Market Scheme was first introduced as an experimental measure and was initially restricted to banks with deposits of Rs. 10 crores and above. To encourage use of the facilities of the Scheme, the Bank offered to charge 3 per cent on loans under the Scheme as against the bank rate of  $3\frac{1}{2}$  per cent which was also the rate on loans against Government securities (Section 17(4)(a)). The Bank also agreed to bear half the cost of the stamp duty incurred by banks in converting demand promissory notes of their constituents into *usance* bills. The stamp duty concession was withdrawn in March 1956. The concession in the matter of interest rates was also withdrawn, in two stages, of  $\frac{1}{4}$  per cent each, the rate for advances against securities being made applicable to these loans from November 1956. The effective borrowing rate of scheduled banks under the Bill Market Scheme rose further by  $\frac{1}{2}$  per cent, with effect from February 1, 1957, as a result of Government's raising the stamp duty on *usance* bills. With the raising of the bank rate on May 16, 1957 from  $3\frac{1}{2}$  per cent to 4 per cent and the simultaneous lowering of the stamp duty on *usance* bills to one-fifth of 1 per cent, the effective borrowing rate under the Scheme is now  $4\frac{1}{5}$  per cent.

Since its introduction in January 1952, the amount of advances availed of under the Bill Market Scheme has risen from year to year. The highest outstanding amount, which in 1952 was Rs. 29.6 crores, rose to Rs. 73.8 crores on

March 23, 1957. At the end of March 1958, it formed 63 per cent of the total outstanding advances made by the Reserve Bank to scheduled banks.



Some general considerations bearing on access to the lending facilities of the Reserve Bank by banks may be mentioned at this stage. In extending credit to scheduled banks, the Bank takes into consideration, apart from the general economic situation, not only the nature of the security offered to it (and in the case of bills the soundness of the individual party for which purpose it might either call for special information or carry out an independent investigation) but also the general character of the operations of the applicant bank and the manner in which it is conducting its affairs. The Bank has the right to refuse loans without assigning any

reason. Besides short-term advances to scheduled banks, the Bank also makes loans exceeding 90 days for the financing of agricultural operations, or for purposes of industrial financing, but such credits are normally channelled through agencies other than scheduled banks, such as, the State co-operative banks and the State Financial Corporations.

As regards the cost of the credit made available by the Reserve Bank, the bank rate which according to Section 49 of the Reserve Bank of India Act is "the standard rate at which it (the Bank) is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act" has hardly been directly operative. It is the rate on *advances* by the Bank that is important and has been commonly treated as the equivalent of bank rate. Viewed in the broad sense of the rate on the Bank's accommodation, the bank rate has been of growing significance in recent years. Its importance lies in the fact that it forms the basis for the rates at which the Bank grants advances to various types of borrowers, including the Central and State Governments. The structure of the lending rates of the Reserve Bank is comparatively simple. There is not, as in some central banks, a multiplicity of interest rates. The main differentiation in the Indian system of the central bank's lending rates lies in the low rate for agricultural credit, as described in chapter VI.

The bank rate remained unchanged almost since the inception of the Bank till mid-November 1951. By that time it was clear that the abnormal expansion in bank credit in the 1950-51 busy season and also the high level of demand for bank credit in the 1951 slack season had encouraged speculative investment in the trading sector; it had also probably accentuated the balance of payments

deficit which was widening since the second quarter of 1951. It was in these circumstances that the Reserve Bank initiated a new monetary policy on November 15, 1951, when the bank rate was raised to  $3\frac{1}{2}$  per cent from 3 per cent; and, as already mentioned, a new open market policy was instituted. The immediate effects of these changes were an upward adjustment in the interest rates and a stoppage of the automatic expansion of the liquidity of the banking system through the monetisation of the public debt by banks. As a consequence, banks were compelled to meet the seasonal demand for credit by resorting increasingly to the loan facilities afforded by the Reserve Bank. The Reserve Bank thus acquired in 1951 a greater measure of control over the banking system than it had before. The bank rate—or the rate for lending against the security of bills—remained at  $3\frac{1}{2}$  per cent till May 15, 1957, when it was raised to 4 per cent. But, as already mentioned, the effective borrowing rate of scheduled banks from the Bank rose to 4 per cent, as from February 1, 1957, consequent on the sharp enhancement of stamp duty on *usance* bills, which the Finance Minister described as ‘a fiscal measure with a monetary intent.’ Effective the same date, the Reserve Bank’s rate for advances against Government securities was also raised to 4 per cent. From May 15, 1957, a unification of rates was brought about, as stated above, through the raising of the rate for advances against bills. The other market rates have responded to these changes. The bank rate remains a prime regulator of the market rate structure.

Over the years, the Bank has, by its loan and open market operations, succeeded to a considerable extent in reducing the level of interest rates in general and call money and *bazaar* bill rates in particular, as also in mitigating

the seasonal fluctuations in interest rates, which had been a marked characteristic of the Indian money market prior to the Bank's establishment.

### Open Market Operations

Among the other instruments of credit control, open market operations, *i.e.*, purchase and sale of Government securities, have been employed fairly extensively by the Reserve Bank. The legal and institutional setting in India is generally favourable for the conduct of open market operations. Sub-sections (8) and (8A) of Section 17 of the Act authorise the Bank to engage in (i) the purchase and sale of securities of the Central Government or a State Government of any maturity or of such securities of a local authority as may be specified in this behalf by the Central Government on the recommendation of the Central Board; securities fully guaranteed as to principal and interest by any such Government or authority are deemed for the purpose of this clause to be securities of such Government or authority, and (ii) the purchase and sale of shares in, or the capital of, the State Bank of India or any other bank or financial institution notified by the Central Government in this behalf. Thus, at present, there is no restriction as to either the quantity or the maturity of securities which the Bank can purchase. The purchase and holding of Government securities have tended to be fairly widespread, though confined largely to institutional investors; among these, banks are the most important followed by the Life Insurance Corporation which has been statutorily required to hold a major proportion of its assets in Government and other trustee securities. Unlike in the U.S.A. and the U.K., open market operations in India have been in Government bonds rather than primarily in Treasury bills, in the absence of a well-developed Treasury bill market in India. In the slack season, the commercial banks generally invest their surplus

funds in Government securities which they sell (or against which they borrow) during the busy season in order to expand credit to industry and commerce, the Reserve Bank being generally ready to deal in these securities. The open market operations of the Bank are guided not only by the general state of credit and the requirements of banks but also by the exigencies of Government borrowing. As banker to Government, it is the duty of the Bank to create in the gilt-edged market conditions favourable for the successful implementation of Government's borrowing and refunding operations. On the other hand, Government's loan operations themselves are so arranged as to be in harmony, as far as possible, with general stability of the money and capital markets.

Prior to World War II, the scale of the Bank's open market operations was comparatively small. During the war years, banks and other institutional investors were continuously adding to their investments in Government securities, in the absence of alternative outlets for funds, and the Bank's operations were mainly intended to assist the successful floatation of Government loans. In the post-war years, the Bank's operations were mainly in the direction of purchases of securities, in order to meet the cash requirements of banks for expansion of credit, which during wartime had fallen to low proportions. The Bank's purchases were particularly large during the years 1948-49 and 1950-51, the latter year being the period of the Korean war boom. This policy of comparatively free purchases of securities by the Bank was, as already mentioned, modified in mid-November 1951. The revised policy was in operation for about five years, during which the Bank was able to make net sales of securities of about Rs. 50 crores as against net purchases aggregating a little over Rs. 200 crores during the years 1948-51.

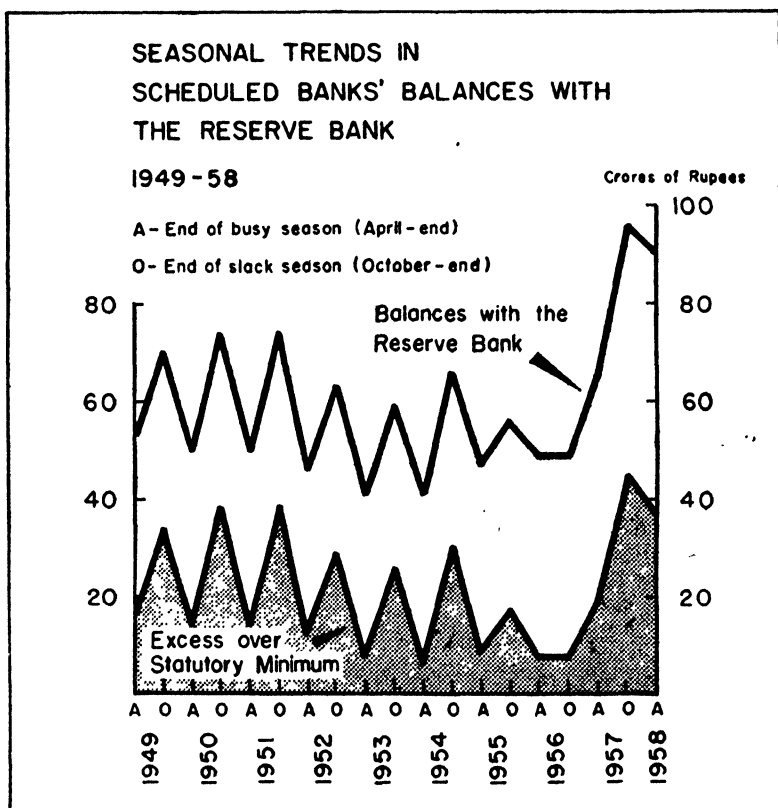
From November 1956, however, the Bank began to offer discriminating support to the gilt-edged market, to ease the acute stringency in the money market. Apart from outright purchases or sales, the Bank engages extensively in 'switch' operations, that is, purchase of one loan against sale of another *and vice versa* to maintain an orderly pattern of yields and to cater to the varying requirements of investors with respect to maturity distribution policy. Since the middle of 1957, however, the emphasis has again shifted to sales and there has been a considerable excess of the Bank's sales over purchases of securities.

### Variable Reserve Requirements

Under Section 42(r) of the Reserve Bank of India Act, scheduled banks were required to maintain with the Reserve Bank a minimum cash reserve of 5 per cent of their demand liabilities and 2 per cent of their time liabilities\*. The Amendment Act of 1956, however, empowers the Bank to vary the required reserves of scheduled banks between 5 and 20 per cent in respect of the demand liabilities and between 2 and 8 per cent in respect of the time liabilities. Further, to facilitate the flexible operation of this system, the Reserve Bank has also been vested with the power to require scheduled banks to maintain with the Reserve Bank additional cash reserves, computed with reference to the *excess* of demand and time liabilities over the level of such liabilities on a base date to be notified by the Reserve Bank, subject to the proviso that the total reserves to be maintained with the Reserve Bank by a bank should not exceed 20 per cent of demand and 8 per cent of time liabilities. This provision is designed to ensure equity in the operation of additional reserve requirements when the acquisition of fresh deposits by banks

\* In terms of Section 18 of the Banking Companies Act, 1949 every banking company other than a scheduled bank is also required to maintain a cash reserve, with itself or with the Reserve Bank, or both, of at least 2 per cent of its time liabilities and 5 per cent of its demand liabilities.

is highly uneven. The Act also provides for the payment of interest by the Reserve Bank, at its discretion, at a rate or rates which may be determined by it from time to time, on the amount of reserves which exceed the minimum of 5 per cent of demand and 2 per cent of time liabilities. The payment of interest is, however, subject to a bank's maintaining the whole of the legal minimum balance required of it. No use has so far been made of these provisions for varying the required reserves of banks. The scheduled banks as a whole maintain balances in excess of the statutory minimum, the excess itself varying from season to season (see chart below).





### Selective and Direct Credit Regulation

The instruments of credit control discussed in the foregoing paragraphs and commonly known as *general* or *quantitative* methods of credit control enable the Reserve Bank to regulate the total volume of bank credit but not of the credit to particular spheres of economic activity. The regulation of credit for specific purposes or branches of economic activity is termed *selective* or *qualitative* credit control. Its aim is to encourage such forms of activity as are regarded as essential or specially desirable and to discourage those which are regarded as relatively unessential or less desirable. The criteria of essentiality or desirability are not of course constant. Many central banks have been employing, in recent years, a wide range of selective credit instruments, sometimes independently of, but often in combination with, the general credit instruments. Available experience, however, seems to indicate that their effectiveness is greatly enhanced when they are used together with the general quantitative credit controls. In addition to selective credit controls, central banks in many countries have also been acquiring powers of direct regulation of the total magnitude as also the distribution of advances and investments of individual banks as well as of the entire banking system.

Section 21 of the Banking Companies Act confers on the Reserve Bank the power to control advances by banking companies. The Section reads as under:

“(1) Where the Reserve Bank is satisfied that it is necessary or expedient in the public interest so to do, it may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular, and when the policy has been so determined, all banking companies or the

banking company concerned, as the case may be, shall be bound to follow the policy as so determined.

(2) Without prejudice to the generality of the power vested in the Reserve Bank under sub-section (1), the Reserve Bank may give directions to banking companies, either generally or to any banking company or group of banking companies in particular, as to the purposes for which advances may or may not be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged on advances, and each banking company shall be bound to comply with any directions as so given."

Section 35A which was introduced in 1957, gives power to the Bank to give directions to banks as under:

"(1) Where the Reserve Bank is satisfied that

- (a) in the national interest; or
- (b) to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company; or
- (c) to secure the proper management of any banking company generally;

it is necessary to issue directions to banking companies generally or to any banking company in particular, it may, from time to time, issue such directions as it deems fit, and the banking companies or the banking company, as the case may be, shall be bound to comply with such directions;

(2) The Reserve Bank may, on representation made to it or on its own motion, modify or cancel any direction issued under sub-section (1), and in so modifying or cancelling any direction may impose such conditions as it thinks fit, subject to which the modification or cancellation shall have effect."

Further, under Section 36(1) (a) of the same Act,

"the Reserve Bank may caution or prohibit banking companies generally or any banking company in particular against entering into any particular transaction or class of transactions, and generally give advice to any banking company."

From time to time the Bank has asked banks through circular letters to exercise caution in their lending in general as well as lending against the security of specified commodities and shares. It is only since about the middle of 1956, however, that the Bank has begun to operate systematically the directive powers it has under the Banking Companies Act. Early in 1956, there was reason to believe that a sizeable amount of bank credit expansion in the busy season of 1955-56 was utilised for speculative holding of agricultural commodities. The Reserve Bank, therefore, issued a circular to banks asking them to submit fortnightly information on the amounts of advances against selected securities, with a view to maintaining the necessary vigilance. Subsequently, in May 1956, the Bank issued a directive to banks to restrict their advances against paddy and rice and to raise the margins maintained against these commodities.

On September 13, 1956, this selective control was extended to cover bank advances against other foodgrains, gram

and other pulses, and cotton manufactures. The Bank's use of selective credit controls has been characterised by flexibility which is demonstrated by the prompt withdrawal of control measures when circumstances no longer warranted their continuance or their modification when necessary. Thus, in November 1956, the directive with regard to advances against paddy and rice was withdrawn to facilitate the financing of the movement of the new crops; the restrictions were reimposed on February 9, 1957. The directive on cotton manufactures was withdrawn after a relatively short period of its working.

Although banks have generally been found to be responsive to the advice tendered by the Reserve Bank from time to time, in a few cases the Reserve Bank was constrained to exercise the powers conferred on it by Section 36 (1)(a) of the Banking Companies Act and to prohibit the banks in question, for a stipulated period, from making advances exceeding a specified amount without prior permission of the Reserve Bank. While the experience of the Bank in the field of selective credit has been very limited, there is reason to hope that a judicious use of these powers together with the general instruments of credit control will enable the Bank to regulate the credit system in a reasonably effective way.

It should be pointed out that the powers of selective and direct credit control which the Bank has, apply to scheduled and non-scheduled banks alike, since the Banking Companies Act applies to all banks. In practice, however, the directives have been issued to scheduled and a few of the largest non-scheduled banks owing to the administrative problem involved in operating the control in relation to a large number of very small banks.

### **Moral Suasion**

In addition to the above-mentioned methods of credit control, both quantitative and qualitative, it may be noted that use has also been made in this country of *moral suasion*. In September 1949, following the devaluation of the rupee, the Governor of the Bank held a meeting of leading bankers at which a request was made to them to co-operate with the authorities by refraining from making advances for speculative purposes. Similarly, a circular letter was written by the Governor of the Reserve Bank to the commercial banks in June 1957, urging upon them the necessity of achieving a positive reduction in their advances, particularly against agricultural commodities without affecting the magnitude of their assistance to industry. This was followed by a conference held by the Governor with leading bankers a month later at which the desirability of reducing the level of advances significantly (to Rs. 800 crores from the then level of about Rs. 937 crores) was impressed upon them; the reduction was by and large achieved. Although Indian banking is not so concentrated as in the U.K., the bulk of the deposit resources is concentrated in about a dozen banks and this makes it possible for the Bank executives to have frequent informal consultations with the banks and achieve some results through persuasion.

Besides powers of credit regulation, the Banking Companies Act gives the Bank comprehensive administrative and general regulatory powers, with the object of safeguarding the interests of depositors and of creating conditions for the orderly growth of the banking system. The Reserve Bank thus combines in itself functions which in a country like the U.S.A. are distributed among different agencies, such as, the Board of Governors of the Federal Reserve System, the

Comptroller of Currency, the Federal Deposit Insurance Corporation (which also inspects the insured banks) and the State inspection authorities for banks, or which in some continental countries are shared between the Registrars or Inspectors of Banks and central banks. An account of these other functions of the Bank and the important obligations of banks under the Banking Companies Act is given in the following chapter.

## IV

# SUPERVISION AND CONTROL OF BANKS

### Licensing

The Banking Companies Act is a comprehensive measure covering the establishment, including opening of branches, the working and liquidation of banks. In terms of Section 22 of the Act, banks are required to obtain a licence from the Reserve Bank for carrying on, or commencing banking business in India. This requirement is intended to ensure the continuance and growth only of banks which are established or are operating on sound lines, and to discourage (in conjunction with the control on capital issues) indiscriminate floatation of banking companies. Banks already in operation at the time of commencement of the Banking Companies Act are allowed to carry on banking business until a licence is refused to them. Before the grant of a licence, the Bank generally satisfies itself by an inspection of the bank's books and accounts and methods of operation, that it is in a position to pay its depositors in full as their claims accrue, and that its affairs are not being conducted to the detriment of its depositors. An additional requirement in the case of banks incorporated abroad is that the law or Government of the country of incorporation does not discriminate in any way against banks incorporated in India. Since the coming into force of the Banking Companies Act upto March 31, 1958, 47 scheduled and 6 non-scheduled banks have been granted licences ;

though in numbers this represents only about one-half of the scheduled banks and a very small section of the non-scheduled banks, these banks together with the State Bank of India and the three other major State associated banks to which the licensing provisions are not applicable account for 93 per cent of the total deposits of all banking companies in India.

The procedure followed with regard to the grant of licences to banks is that after inspection they are informed of the defective features observed in their working and are advised to take suitable corrective steps, and periodical reports are called for by the Bank to watch their progress in rectifying the defects in their working. Where necessary, banks are advised to appoint, in consultation with the Bank, banking advisers to help them place their affairs on a sound basis. The Banking Companies (Amendment) Act, 1956 requires the approval of the Reserve Bank for the appointment or reappointment of managing directors and chief executive officers of banks, and for the amendments of provisions relating to their appointment, reappointment or remuneration. If necessary, the Bank deputes its officers as observers to watch the working of banks by periodical visits and by attendance at the meetings of the board of directors. Only in extreme cases of a bank's failure to show any improvement is the step of refusing a licence taken. Thus, upto March 31, 1958, 2 scheduled banks and 111 non-scheduled banks were refused licences. One of the scheduled banks was a Portuguese bank, the refusal of the licence being the result of the Government of Portugal discriminating against Indian banks by refusing them permission to open branches in its territories in India. The first round of inspection of all banks has been already completed and in several cases banks have been inspected more than once.



### Capital, Reserves and Liquid Assets

The interests of depositors are sought to be safeguarded also through the prescription of minimum capital and reserves of banks, varying according to the geographical coverage of their operations. This minimum requirement of paid-up capital plus reserves increases as the bank's activities expand from a single office at a place other than Bombay or Calcutta (when it is Rs. 50,000) to offices across State boundaries (Rs. 5 lakhs) and in the cities of Bombay and Calcutta such requirement is placed at not less than Rs. 10 lakhs.\* Another control measure relates to the maintenance of minimum percentage of cash and other liquid assets. As stated earlier (page 41), scheduled banks are required to maintain minimum balances with the Bank and the non-scheduled banks are required, under the provisions of the Banking Companies Act, to maintain a minimum holding of cash and balances equivalent to 5 and 2 per cent of their demand and time liabilities, respectively. The Banking Companies Act also provides for the maintenance by all banks of what may be termed as a secondary reserve; Section 24 requires the banks to maintain in the form of cash, gold and unencumbered approved securities at the close of business on any day an amount not less than 20 per cent of their total demand and time liabilities in India. In order to ensure in respect of foreign banks operating in the country that the resources raised in India are largely invested in this country, the banks are required to maintain in India, under Section 25, as at the end of each quarter, assets which shall not be less than seventy-five per cent of their demand and time

---

\* In the case of a banking company incorporated outside India, the aggregate value of its paid-up capital and reserves should not be less than fifteen lakhs of rupees, and, if it has a place or places of business in the city of Bombay or Calcutta or both, twenty lakhs of rupees; and such amounts should be deposited with the Reserve Bank, either in cash or in unencumbered approved securities or partly in cash and partly in such securities.

liabilities. Further, Section 17 stipulates that every banking company incorporated in India shall, out of the net profits each year and before any dividend is declared, transfer not less than 20 per cent of such profits to the reserve fund, until the fund is equal to the paid-up capital.

### **Branch Expansion**

Another important aspect of the Bank's supervisory function relates to the control exercised over expansion of bank branches. In terms of Section 23 of the Act, banks are required to obtain the permission of the Reserve Bank for opening new branches either in India or abroad, and also for changing the location of existing offices. The Bank's permission is granted on its being satisfied that the financial condition and management of the bank in question is sound, that the earning prospects of the branch are good and that in general the public interest would be served by the opening of the branch or changing the location of the existing one, as the case may be. The control on branch expansion was necessitated by the indiscriminate growth of branches during World War II which tended to accentuate the concentration of banking offices in the main urban centres while leaving large areas of the country either inadequately served or not covered at all.

Since the inception of control, the intention has been to correct this lop-sided development as is evident from the fact that about three-fifths of the total number of branches allowed to be opened is in places with a population of 50,000 and less. A reference may also be made to the branch expansion programme of the State Bank of India. This bank has been charged with the responsibility of opening 400 branches in the rural and semi-urban areas within a period of five years from its inception or such

extended period as may be permitted by the Government, largely with a view to stimulating banking in the rural areas where commercial banks are reluctant to penetrate as well as to provide vastly extended remittance facilities to commercial and co-operative banks. The turnover of the treasury, the extent of existing banking facilities and the availability of warehousing accommodation are some of the principal criteria for selecting centres for opening new branches. Control on opening of foreign branches is in particular intended to ensure the maintenance of sound banking traditions by foreign branches of Indian banks. In practice, the Bank's policy in the matter of control of branch expansion has of late been considerably relaxed, and the emphasis of policy has shifted to stimulating such expansion.

### **Inspection**

Perhaps the most significant of the supervisory powers conferred on the Reserve Bank by legislation is the power to inspect banking companies. Under Section 35 of the Banking Companies Act, the Bank is empowered to inspect a bank at any time; in particular the Bank is empowered to inspect, make an enquiry or determine the position in respect of matters specified under various sections of the Act, *e.g.*, to satisfy itself regarding the adequacy of capital in terms of Section 11 of the Act, eligibility for licences (Section 22), opening of branches (Section 23), amalgamations (Section 44A), suspension of business and compromise or arrangement with creditors/members, etc. (Sections 37 and 45), or compliance with any directives issued by the Bank (Section 21).

The primary object of inspection is to help banks develop sound banking traditions by inviting their attention to defects in their working. In the course of inspection, the Reserve Bank examines a bank's affairs with particular reference to

the methods of operation, investments and lending policies, the state of assets, the quality of management, and the extent to which it has complied with the various statutory provisions, etc. For the adequate discharge of its duties and responsibilities under the Banking Companies Act, the Bank has, since March 1950, instituted machinery for the periodical inspection of all banking companies governed by the Act. The steps taken by the Bank in bringing about the desired degree of improvement in the position and working of banks following their inspection have already been indicated in an earlier paragraph. The Bank is also empowered, under Section 36(i)(d)(v) of the Act, to effect a change in the management of a bank should it consider this necessary. In extreme cases when the affairs of a bank are observed to be beyond redemption, the Reserve Bank may resort to adverse action against a bank with a view to safeguarding the interests of the depositing public. Such adverse action may take the form, as explained earlier, of refusal of licence or cancellation of existing licence, prohibition by the Central Government of receipt of fresh deposits, or issue of directions by the Central Government to the Reserve Bank to apply to the Court for taking the banking company into liquidation.

The system of inspections has proved useful as a corrective to unsound banking methods and practices of the weaker units in the banking system and has helped to tone up the standards of banking management.

It was also thought that the Reserve Bank should be in a position to approve of the appointments of top officials of banking companies as well as to regulate their salaries in view of their disproportionately high levels, particularly in the case of major Indian banks, as pointed out by the Bank Award Commission. Provision was made to this end under

the Banking Companies (Amendment) Act which was passed by Parliament in December 1956, which also conferred powers on the Bank to issue directions to banks in the national interest.

### **Amalgamations**

A further important regulatory provision in the Banking Companies Act (Section 44A) relates to amalgamations. It is incumbent on banks to secure permission of the Reserve Bank before they amalgamate. The Act sets out the procedure which banks have to adopt in connection with schemes of amalgamation, such as, holding of meetings of shareholders, payment to dissentient members and giving adequate publicity to the scheme. The Bank's policy in this respect is generally to encourage amalgamations of banking companies, provided it is satisfied that the scheme for merger is in the interest of the depositors of the banks and that the amalgamated unit will be able to play a useful role in strengthening the banking structure in the area of operations of the amalgamating units. Integration into stronger banking units is also generally encouraged through the transfer of assets and liabilities of one banking company to another. The main difference between an amalgamation and a transfer is that, while under amalgamation, the company which is taken over goes out of existence altogether, under transfer it is open to the transferor company either to go into liquidation or to carry on non-banking business.

### **Schemes of Arrangement**

According to Section 45 of the Banking Companies Act, no High Court shall sanction any compromise or arrangement between a banking company and its creditors or between such company and its members unless the compromise

or arrangement is certified by the Reserve Bank as not being detrimental to the interests of the depositors of such banking company.

### **Liquidation**

The Reserve Bank's efforts to safeguard the interests of depositors are not confined to the operations of banks during their life but also extend to the period following their liquidation. In July 1952, the Government of India appointed the Banks' Liquidation Proceedings Committee to review the progress of bank liquidations and consider the need for devising further provisions for the simplification and speedy disposal of winding up proceedings. The more important recommendations of the Committee were embodied in the Banking Companies (Amendment) Act, 1953 which came into force in December 1953. The amended Act provides for the appointment, on application by the Reserve Bank, of itself, the State Bank of India or any other bank notified by the Central Government as the official liquidator of a banking company and also contains provisions for the speedy disposal of winding up proceedings.

### **Control of Issue of Bank Capital**

As part of its advisory functions, the Bank advises the Central Government on applications received from banking and investment companies for the issue of capital. Applications for issue of capital from existing banking companies are judged with reference to their capital structure, capital requirements under the Banking Companies Act, financial position, methods of operation, etc. For judging new ventures, the means and standing of the promoter-directors, the proposed location and business prospects *vis-a-vis* the existing banks in the same locality are some of the criteria employed. The Government of India makes it clear to the existing banks that sanction to issue capital does not guarantee

the grant of a licence by the Reserve Bank of India under Section 22 of the Banking Companies Act, 1949. Applications by banks for extension of time to sell the unsubscribed portion of the capital already sanctioned are also referred to the Reserve Bank by Government for advice.

### **Training in Banking**

The standards of banking management vitally depend upon the quality of bankers and the training of banking personnel has a crucial role to play in this context. In pursuance of its function to develop and improve the banking system over and above regulating its operations, the Reserve Bank established in 1954, at its own cost, a Bankers Training College, to impart training in practical banking to the supervisory staff of banks in India. Besides the regular curriculum, arrangements have been made for lectures by experts on different subjects having regard to the wider aspects of a banker's training. In running the college the Bank is assisted by an Advisory Council consisting of representatives of leading institutions in the field of banking. The duration of the training course has been extended from 8 to 9 weeks; so far the College has conducted 18 courses, imparting training to 422 bank officials.

### **Banking Development**

While regulation and supervision of banks form the main functions of the Reserve Bank, the Bank has, in recent years, given increasing attention to the development aspect of banking. In October 1950, the Bank established a new Department of Banking Development charged with the function of promoting and assisting the expansion of banking facilities in this country. The broad approach to the problem of banking development in the relatively under-banked areas has been along the lines recommended by the Rural Banking Enquiry Committee (1950) and the Informal Con-

ference on Rural Finance (1951) convened by the Bank. Their main recommendations were concerned with branch expansion by the commercial banks in general and the Imperial Bank of India, in particular. In this respect, a significant development, which might well be regarded as opening a new chapter in the evolution of Indian banking, was the establishment of the State Bank of India on July 1, 1955, by transferring to it the undertaking of the Imperial Bank of India. Among the immediate objectives of the State Bank of India was a vigorous expansion of branches. The bank is required, under the statute establishing it, to open not less than 400 branches over a period of five years (unless the period is extended by Government) at such places as may be determined by Government in consultation with the Reserve Bank and the State Bank of India. Besides, at the time of inception the State Bank of India had on hand 51 centres which it took over from the unfinished expansion programme of the former Imperial Bank of India. Although in the initial stages the progress made in implementing these programmes was slow, the arrangements for branch expansion are now proceeding apace. At the end of March 1958, the State Bank of India had opened 182 branches, 138 from the lists of 272 centres approved by Government under Section 16(5) of the State Bank of India Act and 44 from the list of 51 centres left over from the programme of the former Imperial Bank of India. In implementing these programmes, there is direct and intimate co-ordination between the State Bank of India and the Reserve Bank. The Reserve Bank's policy of branch licensing is guided by the general objective of extending banking facilities to areas where they are not available or are inadequate, as for instance, in the rural and semi-urban areas. In addition, the Bank has sought to promote banking development through progressive liberalisation of remittance facilities.



## **BANKER TO GOVERNMENT**

Before the establishment of the Reserve Bank, the more important current financial transactions of Government were handled by the former Imperial Bank of India ; administration of the public debt was the direct responsibility of the Government, although the Public Debt Offices were being managed by the former Imperial Bank of India. Both these aspects of Government finance have now been centralised in the Reserve Bank. Further, the Bank acts as banker not only to the Government of India, but in view of the federal character of the Indian Constitution, also to the Governments of the constituent units.

Sections 20, 21 and 21A of the Reserve Bank of India Act form the statutory basis for these functions. In terms of the first two sections, the Bank has the right and obligation to transact the banking business of the Government of India and accordingly undertakes to accept money on account of that Government, to make payments on its behalf and also to carry out its exchange, remittance and other banking operations including the management of the public debt. The Bank performs similar functions on behalf of the State Governments by virtue of agreements entered into with them.

### **Agreement with the Central Government**

The terms and conditions on which the Bank acts as banker to the Central and State Governments have been set

out in the separate agreements which the Bank has entered into with the Governments. The first of such agreements was entered into on April 5, 1935 with the Secretary of State for India in Council, acting by and through the Central Government. 'Under this agreement, which continues to remain in force, the Bank is required to transact the general banking business of the Central Government and for this purpose to keep such accounts in its books as the Government may direct. The Bank is not entitled to any remuneration for the conduct of the ordinary banking business of the Central Government.' 'The Bank is also entrusted with the management of the public debt and the issue of new loans and Treasury bills of the Central Government.' For the management of the public debt, the Bank is entitled to charge half-yearly a commission at the rate of Rs. 2,000 per crore per annum on the amount of public debt at the close of the half-year for which the charge is made.' 'The Bank is required to maintain currency chests of its Issue Department at places prescribed by the Government and to keep the chests supplied with sufficient notes and coins to provide currency for the transactions of the Government and reasonable remittance facilities to the public at such places. The Bank is also obliged under the agreement to remit, on account of Government, between India and London such amounts as may be required from time to time at the prevailing market rate for telegraphic transfers.

### **Agreements with State Governments**

Prior to the inauguration of Provincial Autonomy on April 1, 1937, the Bank's relations with the (then) Provincial Governments were not direct; the Bank dealt solely with the Central Government, and the latter was responsible for meeting the ways and means requirements of the Provincial Governments. With the introduction of Pro-

vincial Autonomy, each Province was required to open a separate account with the Reserve Bank, and accordingly, in terms of Section 21 of the Act (then in force), the Bank entered into separate agreements with the Provinces, which set out the terms and conditions on which the Bank agreed to transact the banking business of the Provincial Government concerned. This change-over entailed not only far-reaching alterations in the accounts, but also several important questions of principle, particularly with reference to the method by which the ways and means requirements of the Provinces were to be met. These problems were examined by the Central Government, the Finance Members of the Provinces and the Reserve Bank at a conference held in August 1936. With the co-operation of the Central and the Provincial Governments, the change-over in respect of the classification of public accounts was effected smoothly. However, in order to give time to the new autonomous Provinces to acquire the necessary experience in framing their ways and means requirements, it was decided that the Central Government should remain responsible for these requirements of the Provinces for the financial year 1937-38 ; the Provinces were also exempted from keeping any minimum balances with the Reserve Bank during that year. From April 1, 1938, each Provincial Government assumed full responsibility for its own ways and means requirements and also agreed to keep a specified minimum balance with the Reserve Bank. Under the agreements referred to above, the Provinces were required to meet any temporary deficits in their minimum balances either by issuing their own Treasury bills or by obtaining ways and means advances from the Reserve Bank. Except in certain respects, such as, restriction on the total of ways and means advances, these agreements entered into with the State Governments are more or less similar to the agreement between the Central Govern-

ment and the Bank. The Bank is entitled to make a charge for remittances of funds by a State Government outside the area of its jurisdiction, except as provided in the agreement, at rates not exceeding those which the Bank charges to scheduled banks.

With the coming into force in January 1950 of the Constitution of India, the Reserve Bank of India Act was amended in 1951 by the insertion of Section 21A which authorised the Bank to act, by agreement, as banker to the erstwhile Part B States. The appointment of the Bank as banker to all the Part B States was directed generally to integrating the banking and treasury arrangements in Part B States with those in the Part A States. The relation of the Bank with the Part B States was somewhat different from that which obtained between the Bank and the Government of India or Part A States; whereas in the case of these latter Governments, the Bank had a right to perform their banking operations in terms of Section 21 of the Reserve Bank of India Act, the new Section 21A, in view of the peculiar circumstances of Part B States, was made permissive in character and laid down that Bank's appointment as banker to these States was subject to an agreement with them in this behalf. With the reorganisation of States their classification into Part A, Part B and Part C States has disappeared and except in regard to certain Union territories, all States have been placed on the same footing. Accordingly, the basis of the relation of the Bank with all States has also been made uniform and the new Section 21A as amended by the States Reorganisation Act, 1956 laid down that the Bank's right or duty to act as banker to the States was to be under agreements with them in that behalf. Before November 1, 1956 (the date of the reorganisation of States), all former Part A States and Part B

States, except PEPSU and Rajasthan, had entered into such agreements. With the reorganisation of States, PEPSU was merged with the Punjab and the agreement subsisting between the Government of the Punjab and the Reserve Bank became applicable to the enlarged Punjab. The Reserve Bank started functioning as banker to the Rajasthan Government with effect from November 1, 1956, which marked the culmination of the process of financial integration of the erstwhile Part B States which commenced in 1952. The Reserve Bank now acts as banker to all the State Governments in India with the exception of Jammu and Kashmir.

As regards the management of the public debt by the Reserve Bank, until 1946, the Indian Securities Act, 1920 governed the securities issued by both the Central and the Provincial Governments. With effect from May 1, 1946, the Public Debt (Central Government) Act, 1944 governed the securities of the Central Government, leaving provincial securities to be regulated by the Indian Securities Act, 1920. However, by April 1949, all the Provincial Governments (Part A States) passed resolutions that their public debt should also be regulated by the Public Debt (Central Government) Act, 1944 and the Act was accordingly enforced. Similarly, by October 1956, all the Part B States passed resolutions to the effect that the public debt of those States should be regulated in the same way, with the result that at present the Reserve Bank manages the public debt of the Central as well as all the State Governments.

### **Administrative Arrangements**

The discharge of the Bank's function as banker to Government involves the receipt and payment of money on behalf of various Government departments. The work

relating to Government business is attended to by the Public Accounts Departments of the Bank (for details see chapter X) at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi. At Kanpur, however, there is no Public Accounts Department and Government work there is conducted by the State Bank of India. The actual conduct of Government business is governed by Central Government Treasury Rules, Treasury Rules of State Governments and instructions issued from time to time by Accountants General of States.

As part of its proposal for an integrated system of banking, the Rural Banking Enquiry Committee had recommended the opening by the Bank of offices in the more important State capitals. In accordance with this recommendation, the Bangalore office of the Bank was opened in 1953 and the Nagpur office in 1956. It has, however, been felt that with the conversion of the Imperial Bank of India into the State Bank of India, the establishment of the branches of the Reserve Bank at all the State capitals has not the same urgency which it had when the Rural Banking Enquiry Committee made its recommendation.

Where the Reserve Bank has no branch or office, it has appointed agents to transact Government business in such areas. The Bank's principal agent is the State Bank of India. In fact, a recent amendment to the Reserve Bank of India Act has made it obligatory on the part of the Reserve Bank to appoint the State Bank of India as its sole agent at all places where the Bank has no branch or office of its Banking Department, but where there is a branch of the State Bank of India.\* This amendment did not,

---

\* A corresponding obligation to act as Reserve Bank's agent in such places has been imposed on the State Bank of India by the State Bank of India Act, 1955.

however, affect the existing arrangements with banks in the former Part B States, which were in operation when the State Bank of India Act came into force. Such arrangements have been in force in the territories of the former States of Hyderabad† and Mysore, in terms of the respective agreements entered into with the Governments of those States and the banks concerned. The State Bank of Hyderabad and the Bank of Mysore have been entrusted with the agency functions in their respective territories, subject to certain safeguards considered necessary for the safety of Government moneys, etc. The agency agreements concluded with the three banks are broadly similar. Each of these is charged with the sole responsibility of conducting the Governments' general banking business in the respective territories in their jurisdiction in return for which they receive a stipulated commission. For this purpose, the banks have been provided with currency chests at all important places where their branches are located. The agent banks also provide remittance facilities to all scheduled banks, State co-operative banks and the public in accordance with Reserve Bank's Remittance Facilities Scheme. Some of the offices of the agent banks are also required to receive subscriptions for new loan floatations by Governments.

### **Issue of New Loans and Treasury Bills**

∞ The Reserve Bank, as mentioned earlier, manages the public debt and is responsible for the issue of new loans.††

---

† In view of the disintegration of the Hyderabad State with the re-organisation of States, Section 24(4) of the State Bank of Hyderabad Act, 1956 provides that the State Bank of Hyderabad shall continue to act as the agent of the Reserve Bank at all places and on the same terms and conditions on which the Hyderabad State Bank was acting as the agent of the Reserve Bank before October 22, 1956.

†† Details of the organisation of the Public Debt Offices of the Bank are given in chapter X.

Since the inauguration of the Bank, the rupee loans of the Central Government are being floated in the form of stock certificates and promissory notes through the Public Debt Offices of the Bank. State Governments have also availed themselves of the Bank's facilities for the issue of new loans. In the floatation of new loans, the Bank, by reason of its position as banker to both the Central and State Governments, is able to co-ordinate their borrowing programmes so as to minimise any risk of uneconomic competition. In carrying out the borrowing operations of the Governments, the Bank endeavours, on the one hand, to minimise the effects of such operations on the money and Government securities markets and on the other, to obtain the best possible terms for the Government concerned.

\ The Reserve Bank also sells Treasury bills whenever considered necessary, on behalf of the Central Government by tender at the weekly auctions; Treasury bills are issued for a currency of 91-days. The sale of Treasury bills provides short-term finance to Government and also helps to absorb any excess liquidity in the money market. In the pre-war years, sales of Treasury bills were made in the slack season when funds were plentiful and discontinued in the busy season, but since the end of the war, sales of Treasury bills have been suspended for long periods, especially in view of the general tendency towards tightness in the money market. Thus, Treasury bills were not sold to the public between April 1956 and July 1958.

\ To provide short-term investment facilities to State Governments, semi-Government departments and foreign central banks, the Bank issues on tap, on behalf of the Central Government, *ad hoc* Treasury bills which also have a currency of 91-days. This facility was introduced with the object of making available to the State Governments suffi-



cient Treasury bills to meet their needs whether or not the weekly auctions were being held. It is also intended to eliminate undesirable fluctuations in the discount rate which would otherwise result if State Governments competed with the regular investors, such as, banks and insurance companies, for the limited supplies of Treasury bills at the weekly auctions. These *ad hoc* bills are sold at a rate arrived at by adding Re 0.016 to the bulk tender rate at the preceding public auction of Central Government Treasury bills. Treasury bills are also rediscounted by the Bank for State Governments, banks and other approved bodies.

It may be useful to outline briefly the usual procedure for the sale of these bills. The notice for the weekly tender of Treasury bills, indicating *inter alia* the amount offered and the dates on which the tender and payment are to be made, is included in the same *press communiqué* which announces the results of the previous auction. Applications for bills have to be for a *minimum* amount of Rs. 25,000 or a multiple thereof. Payment for accepted tenders could be made in the form of cash, cheque or maturing Treasury bills. Tenders for these bills are usually received from banks, but there are no restrictions on the class of tenderers and any member of the public could put in an application. Tenders at higher rates which carry correspondingly lower discount rates are accepted to the fullest extent possible and the difference between the amount thus accepted and the amount of offer is made up by making a proportionate allotment to the next best rate(s). Successful tenderers are required to make payment normally on the third day following the issue of *press communiqué*. On maturity, Treasury bills are paid at the office or branch of the Bank from which they were issued.

The Bank also issues Treasury bills on behalf of the State Governments but such occasions are infrequent and there have been no sales of State Government Treasury bills since 1950.

### **Ways and Means Advances**

In terms of Section 17(5) of the Reserve Bank of India Act, the Bank is authorised to make, to the Central and State Governments, ways and means advances which are repayable not later than three months from the date of making the advance. There are no statutory provisions as regards either the rate of interest to be charged or the maximum amount of the advance. These matters are, however, regulated by the respective agreements or arrangements which the Bank has made with the Central and State Governments. According to these, the Reserve Bank is prepared to grant advances to the Government concerned at a rate of interest not exceeding the bank rate. The actual rate charged has been one per cent below the bank rate. Interest is charged for a minimum period of seven days on each advance. In the case of the Central Government the total of such advances outstanding at any time should not exceed the minimum balance which it has agreed to maintain with the Bank and in the case of the State Governments twice the level of their agreed minimum balance. Outstanding advances are repayable in full not later than three months from the date of the initial advance. These advances are granted without any collateral. In addition, the Reserve Bank also grants advances to State Governments against the collateral of Central Government securities. Since 1943-44, the Central Government has had no recourse to the Reserve Bank for ways and means advances in view of the large cash balances accumulated during the war years. However,

since 1954-55, the Government has resorted to the Bank for accommodation on an increasing scale to meet the growing development expenditure under the Five-Year Plans, but this has taken the form of sales of *ad hoc* Treasury bills to the Bank rather than ways and means advances.

### **Assistance to the High Commission of India**

The Bank renders considerable assistance to the High Commission of India in the United Kingdom, which has traditionally been the Central Government's chief procurement and financial agency abroad. In fact, in recent years, the scope of the Commission's operations has been enlarged on account of the purchase of plant and machinery, etc., which it makes abroad in connection with the projects undertaken by the Central and State Governments and other quasi-Government bodies. For meeting the expenditure on these purchases as well as the establishment charges of our embassies in Europe, sterling exchange is sold to Government by the Bank by a debit to its rupee account with the Bank and placed as a deposit at the London office of the Bank. The funds so deposited with the London office are drawn upon by the High Commission for meeting all payments for imports on Government account and other purposes. The services provided by the London office also include purchase of dollars and other non-sterling currencies in the London foreign exchange market for remittance to the India Supply Mission, Washington and Indian diplomatic missions abroad. Where suppliers of goods to Government so require, arrangements are made by the London office for issue of letters of credit and guarantees. The London office of the Bank also handles payment of claims and interest in respect of Government securities enfaced for payment in the U.K.

The Bank acts as the agent of the Government in respect of India's membership of the International Monetary Fund and the International Bank for Reconstruction and Development.

### **Adviser to Governments on Financial Matters**

By virtue of its position as the central bank of the country and its close association with banks and the money market as well as its location in the commercial and financial *metropolis* of the country, the Reserve Bank is in a position to tender advice to Governments on banking and financial matters. Its advice is often sought by Governments in connection with the floatation of new loans, investment of funds, agricultural credit, co-operation, industrial finance, legislation affecting banking and credit, financial aspects of planning and development, etc., besides, of course, matters like floatation of new loans and small savings proposals. This advisory role of the Bank is referred to again in chapters IX and X.

## VI

### THE RESERVE BANK AND RURAL CREDIT

\ Few aspects of the working of the Reserve Bank have been so striking, in comparison with other central banks generally, as its role in the sphere of rural finance. The Bank's responsibility in this field has been occasioned by the predominantly agricultural basis of the Indian economy and the urgent need to expand and co-ordinate the credit facilities available to the agricultural sector. With a view to enabling the Bank to fulfil this important role, the Reserve Bank of India Act itself laid down, in Section 54, that the Bank should set up a special Agricultural Credit Department, the main functions of which were to be :

- “(a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, State co-operative banks and other banking organisations,
- (b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with State co-operative banks, and any other banks or organisations engaged in the business of agricultural credit.”

Section 55(r) (which has since been deleted) of the Act required the Bank to make to the Central Government before

December 31, 1937, a report, with proposals, if it thought fit, for legislation on the following matters:

- (a) the extension of the provisions of the Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and
- (b) the improvement of the machinery for dealing with agricultural finance and methods for effecting a closer co-operation between agricultural enterprise and the operations of the Bank.

### **Evolution of Rural Credit Policies**

The Agricultural Credit Department was organised simultaneously with the establishment of the Bank in April 1935. Prior to the inauguration of the Bank, the Central Government had appointed Sir Malcolm Darling to report on various matters connected with co-operative finance and to present his views on the constitution of the Agricultural Credit Department. This report was received by the Bank in June 1935 and after examining it and other material, the Bank decided, as a preliminary step, to call for detailed information from the (then) Provincial Governments, co-operative societies, indigenous bankers, etc., so as to be able to formulate its own policy in the sphere of agricultural credit, in terms of Section 55(r) of the Act. The two reports which the Bank submitted in this connection, namely, the Preliminary Report in 1936 and the Statutory Report in 1937, described the special features of agricultural finance as well as the part which various agencies, such as, Government, commercial banks, moneylenders and co-operative banks played in providing it. The Reports underlined the significant fact that almost the entire finance required by agriculturists in India was

supplied by moneylenders, the assistance by the co-operative movement being negligible. The funds supplied by moneylenders were subject to high rates of interest; besides, moneylenders were generally not directly interested in the manner in which the agriculturist-borrowers made use of the funds. As a step towards controlling the rate of interest charged by moneylenders and improving their methods of business, the Report suggested legislation for the regulation of money-lending and expressed the opinion that the co-operative movement was the best agency for the supply of agricultural finance and, that, although the co-operative movement in this country had not come up to expectations, it was capable of playing its proper role in the direction of supplying credit facilities to the rural sector of the economy, provided it was reconstructed and revitalised. Since then, the co-operative organisation in the various States was subjected to measures of procedural and administrative reforms and also enjoyed increased statutory credit facilities from the Reserve Bank, but, by and large, the machinery of agricultural credit continued to remain broadly the same as it was in the middle 'thirties. This was indicated by the Committee of Direction of the All-India Rural Credit Survey in its Report published in December 1954. In fact, this Survey, which was undertaken in 1951-52, estimated that co-operative credit accounted for just a little more than 3 per cent of the total borrowings of cultivators and Government credit about the same percentage; also the credit extended by commercial banks as direct financiers of the rural sector was utterly negligible. For much the larger part of what they borrowed, the cultivator depended on private credit agencies, viz., the moneylender and the trader, who between themselves lent more than 70 per cent of what the cultivator borrowed; the moneylenders charged high rates of interest and took no account of the purpose of the loans, as was also observed in the Statutory Report submitted by the

Bank in 1937. The Committee of Direction of the All-India Rural Credit Survey summed up the position in regard to agricultural credit by saying that it "falls short of the right quantity, is not of the right type, does not serve the right purpose, and, by the criterion of need (not overlooking the criterion of creditworthiness) often fails to go to the right people." According to the Committee, rural credit must be directed towards improved productivity; it must meet the long, medium as well as short-term needs; it must be supervised and made available to all who are creditworthy and at moderate rates of interest. The foremost objective of policy, as recommended by the Rural Credit Survey Committee, was the positive and deliberate creation of conditions in which co-operative credit would have reasonable chance of success. The policy of the Reserve Bank in the sphere of rural finance, according to the Committee, should be directed towards achieving this objective as speedily as possible.

#### **Recommendations of the Rural Banking Enquiry Committee, the Informal Conference and the All-India Rural Credit Survey Committee**

In the matter of enlarging banking facilities generally, and in helping to divert a larger flow of credit to the rural sector in particular, the Bank has had to think out fresh approaches, and in order that the lines laid down might be sound and well-conceived, the Bank suggested to the Government of India in 1949 the appointment of the Rural Banking Enquiry Committee. The Bank also convened in February 1951 an Informal Conference to discuss its role in rural finance. The Rural Banking Enquiry Committee made several recommendations for the extension of rural banking, such as, widening and cheapening of remittance facilities, provision of better facilities for exchange of notes and coins, removal of impediments in the way of extension of modern banking facilities to rural



areas, and improvement of the machinery of rural finance as regards mobilisation of rural savings, extension of rural credit and development of warehousing. The Committee proposed that the Imperial Bank of India should continue to be the sole agent of the Reserve Bank in Part A and C States and that it should be persuaded to open a number of new offices for taking up treasury work. Many of these recommendations have since been implemented. The recommendations of the Committee and the Conference may best be summarised in relation to what might be termed the 'three-fold approach' to banking extension laid down by the Rural Banking Enquiry Committee and the 'three-fold approach' to rural finance agreed upon at the Informal Conference. The Committee had recommended that conditions should be created (i) for co-operative banks to extend their activities beyond the towns to the villages and for commercial banks to extend beyond the bigger to the smaller towns, (ii) for the Imperial Bank of India to extend its network of branches beyond banking treasuries to non-banking treasuries and (iii) for the Reserve Bank to open offices in the headquarters of all major States. In the context of agricultural credit, several measures were discussed and accepted at the Informal Conference referred to earlier; these were designed (i) to enable the Reserve Bank to function more effectively within the existing framework, (ii) to enlarge the framework so far as that could be readily decided upon and carried out, and (iii) to design and evolve a co-ordinated framework for the promotion of co-operative institutions, for which purpose a comprehensive factual survey of rural credit was deemed necessary. Broadly speaking, the operations of the Reserve Bank in this field were restricted by statute to short-term agricultural credit; in practice these operations were further confined to States in which the three-fold pyramidal structure, comprising the State co-operative bank at the apex level, central banks at the intermediate level and primary credit

societies at the base, was relatively well-developed. Within these limitations of law and organisation, the Conference felt that there were procedural details which could be improved upon and other reforms which could be introduced with a view to ensuring a freer and more effective flow of agricultural credit from the Reserve Bank. The first set of recommendations comprised suggestions for reform and improvement which could be given effect to within the existing framework. The next category dealt with legal and structural limitations; the Conference made recommendations for the amendment of the existing law so as to extend the scope of the Bank's operations to certain spheres, such as, medium-term agricultural credit and short-term credit for cottage and small-scale industries, and for the reorganisation of the co-operative credit structure in those States where it was relatively under-developed or was in need of rehabilitation. The Conference felt that an enlargement of the existing framework on this basis would give the Reserve Bank greater scope for its activities in the sphere of rural finance. As a preliminary to the eventual designing of a new framework, the Conference recommended the planning and conduct, under the auspices of a small expert committee, of an All-India Rural Credit Survey. This Survey was taken up towards the end of 1951, the field work completed by 1952 and the recommendatory part of the Report presented in December 1954. This Report, to which reference has been made earlier, observed that agricultural credit was neither sufficient, nor of the right type and failed to go to the right people, and that "co-operation had failed but co-operation must succeed." The basis of future policy laid down by this Committee was the creation of conditions in which co-operative credit would have reasonable chances of success. For this purpose it recommended the setting up of an integrated structure based on three fundamental principles *viz.*, State partnership at different levels, full co-ordination between

credit and other economic activities especially marketing and processing, and administration through adequately trained and efficient personnel, responsive to the needs of the rural population. The Reserve Bank has been assigned a crucial role in this scheme of integrated credit.

### **Financial Assistance provided by the Reserve Bank**

A brief description may now be given of the credit facilities provided at present by the Reserve Bank to co-operative credit institutions. These facilities embody many of the recommendations of the Informal Conference and the All-India Rural Credit Survey Report.

The Bank, under its Act of incorporation, is not empowered to finance agriculturists directly; even as in the case of traders and manufacturers where the assistance is rendered only through the scheduled banks and financial corporations, accommodation to the co-operative movement is channelled through State co-operative banks. As a pre-condition for availing themselves of financial accommodation from the Reserve Bank, the State co-operative banks are required to maintain with the Bank an average daily balance the amount of which should not be less than  $2\frac{1}{2}$  per cent of their demand liabilities and 1 per cent of their time liabilities in India; the State co-operative banks submit periodical statements prescribed for the purpose to the Bank and have also agreed to the inspection of their books and accounts being made by the Bank.

As in the case of scheduled banks, there is provision for short-term credit to be extended to the State co-operative banks in the form of advances and rediscounts. The Bank provides accommodation to State co-operative banks in the form of *rediscounts* under Section 17(2)(a), (b) and (bb) and *advances* under

Section 17(4)(c) against eligible bills, as well as *advances* under Section 17(4) (a) against Government and trustee securities (including debentures of central land mortgage banks guaranteed by the respective State Governments). Section 17(2)(a) provides for the *rediscounting* of promissory notes and bills arising out of *bona fide* commercial or trade transactions maturing within 90 days. Section 17(2) (b) provides for rediscounting of promissory notes and bills drawn for seasonal agricultural operations or the marketing of crops, maturing within 15 months. However, in actual practice the period for rediscounts under this Section does not ordinarily exceed 12 months. This Section covers in its purview mixed farming activities as well as processing of crops prior to marketing by agricultural producers or any organisation of such producers. Section 17(2)(bb) provides for rediscounting of promissory notes and bills maturing within 12 months and drawn or issued for the purpose of financing the production or marketing activities of cottage and small-scale industries approved by the Bank provided the repayment of the principal and payment of interest of such bills of exchange or promissory notes is fully guaranteed by the State Government. Section 17(4)(d) which provides for advances against documents of title to goods has, as mentioned in chapter III, remained inoperative so far largely because of the absence of licensed warehouses in the country. Section 17(4)(c) provides for *advances* against the security of eligible bills of exchange and promissory notes. In States where the co-operative movement is not sufficiently developed, the Bank grants loans to State co-operative banks against eligible bills and promissory notes fully guaranteed by the respective State Governments. Though the advances under this Section are repayable on demand, the Reserve Bank of India without prejudice to its right to recall the advances, does not ordinarily exercise this right for a period of 12 months from the date of

advances. The short-term credit facilities granted to State co-operative banks under this Section represent a counterpart of the Bill Market Scheme for commercial banks, with the difference that, in view of the greater time involved in agricultural operations, refinancing in this sector has inevitably to be for longer periods than in the case of commercial banks.

Section 17(4A) provides for the grant of *medium-term* loans to the State co-operative banks from the National Agricultural Credit (Long Term Operations) and the National Agricultural Credit (Stabilisation) Funds and *long-term* loans to central land mortgage banks from the National Agricultural Credit (Long Term Operations) Fund. The provisions for short-term finance to cottage and small-scale industries and intermediate credit to co-operative banks are comparatively recent developments. In this connection, it may be also mentioned that Reserve Bank credit for agricultural purposes, which is channelled through the State co-operative banks, is confined to 'A' and 'B' class co-operative institutions, over and above certain 'C' class institutions\* recommended by the Registrar of Co-operative Societies, since the Act requires at least one *good* signature, apart from that of the State co-operative bank, which only these institutions can provide. Besides, the Reserve Bank grants *long-term* loans to State Governments for enabling them to subscribe to the share capital of co-operative credit institutions [Section 46 A (2) (a)]. The various provisions relating to grant of accommodation are given in a tabular form at the end of this chapter.

The procedure laid down for *short-term* accommodation from the Bank is as follows: Each central co-operative bank

---

\* The classification of the societies is based on their audit reports. The standards for such classification have been suggested by the Reserve Bank of India on the recommendations of the Standing Advisory Committee on Agricultural Credit referred to later.

applies, through its State co-operative bank and the Registrar of Co-operative Societies, to the Reserve Bank for a credit limit. The credit limit is for the year commencing on July 1 and ending on June 30. The Registrars have been advised to forward such applications with the necessary details at least one month before the commencement of the year for which the limit is required. To ensure that the information supplied with the application is uniform and not lacking in any essential details, a form of application has been prescribed. The banks have also to forward with these applications particulars of their latest financial position together with audited balance sheets for the previous three years. Each drawing under a credit limit is allowed a full period of 12 months and in exceptional cases upto 15 months. In some States (*e.g.* West Bengal and Orissa) where central co-operative banks are not strong enough to obtain accommodation on their own, credit is granted under Section 17 (4) (c) to the State co-operative banks against the guarantee of the respective State Governments both as regards repayment of principal and payment of interest, the Bank fixing only the overall limit covered by such guarantee. Normally, 'A' class central co-operative banks are granted credit limits upto thrice their owned funds (paid-up capital plus reserve fund) and in exceptional cases four times this sum; in the case of 'B' class central co-operative banks, it is twice their owned funds and in exceptional cases thrice as much. 'C' class central co-operative banks, on the special recommendations of the Registrars, are eligible for credit limits upto twice their owned funds.

The Bank has undertaken to make agricultural finance available to the rural sector on a more liberal scale as well as at cheaper rates. The Bank makes short and medium-term advances to State co-operative banks at a concessional rate

which is 2 per cent below the bank rate, *i.e.*, the rate now being charged to the State co-operative banks is 2 per cent, following the raising of the bank rate in May 1957 to 4 per cent. This rate applies only in case the finance is used for seasonal agricultural operations or marketing of crops in respect of short-term loans and for agricultural purposes in the case of medium-term advances. For other purposes, advances are made at the bank rate. The concession has been in force since 1942 when the bank rate was 3 per cent and the concessional rate in respect of credit for marketing of crops was 2 per cent (*i.e.* 1 per cent below the bank rate). In 1944, the scheme was extended to cover seasonal agricultural operations. In 1946, the rebate was raised from 1 per cent to  $1\frac{1}{2}$  per cent with the concessional rate falling to  $1\frac{1}{2}$  per cent. In 1951, though the bank rate was raised to  $3\frac{1}{2}$  per cent, the concessional rate was retained at  $1\frac{1}{2}$  per cent (*i.e.*, 2 per cent below the bank rate).

Even with the grant of accommodation by the Bank at a concessional rate, the loan reaches the ultimate borrower in the village at rates generally varying from  $6\frac{1}{4}$  to 12 per cent. In States like Madras, where the co-operative movement is in an advanced stage of development, central co-operative banks obtain funds from the State co-operative banks at  $2\frac{1}{2}$  per cent and lend to the primary societies at  $4\frac{1}{2}$  per cent and the finance eventually percolates to the agriculturist at, say,  $6\frac{1}{4}$  per cent. The Bank and the State Governments are endeavouring to bring about as low a rate pattern as feasible, through a process of expansion and rationalisation of the co-operative credit structure. The availability of alternative credit facilities through these means has generally helped to bring about a lowering of the interest rate pattern over a much wider area in the country side than in the direct sphere of operations of the co-operative movement.

In recent years, the volume of short-term finance provided by the Reserve Bank to State co-operative banks for financing seasonal agricultural operations and marketing of crops, at the concessional rate, has shown a rapid rise, the outstanding amount of these loans having risen to Rs. 30·93 crores at the end of March 1958, from Rs. 6·45 crores at the end of June 1952.

The provision of *medium-term* finance for agricultural purposes is a comparatively recent development. In regard to medium-term loans, the amendment to the Reserve Bank of India Act, effected in 1953, permitted loans with a maturity of between 15 months and 5 years. To give effect to this amendment, the Reserve Bank of India started in February 1955 granting of fixed loans for a period of three years under Section 17 (4A) of the Act. The Bank has also since agreed to sanction upto 25 per cent of the loan for a period of 5 years. The rate of interest has been fixed at 2 per cent below the bank rate; the guarantees of the respective State Governments and the promissory notes executed by the borrowing central co-operative banks or societies are the security for the advances. Included among the purposes for which medium-term loans can be granted are the reclamation of land, bunding and other land improvements, purchase of livestock, implements and machinery required for agriculture and the construction of farm houses and cattle sheds. The outstandings against the State co-operative banks at the end of March 1958 on account of medium-term loans stood at Rs. 3·61 crores. Recently, it has also been decided to assist the State co-operative banks to finance small and medium cultivators for taking shares in co-operative sugar factories. For this purpose, the Reserve Bank will make to State co-operative banks medium-term advances which will run for a period of not less than 15 months and not more



than 4 years and such advances will be at the bank rate. The loans will be fully guaranteed as to the repayment of principal and the payment of interest by the State Government concerned and the security taken will be as in the case of other medium-term loans.

Mention may be made here of the establishment by the Reserve Bank of India of the National Agricultural Credit (Long Term Operations) Fund in February 1956 and the National Agricultural Credit (Stabilisation) Fund in June 1956 in terms of the provisions embodied in the Reserve Bank of India (Amendment) Act, 1955. This was in accordance with one of the recommendations of the Report of the All-India Rural Credit Survey in connection with the provision of medium and long-term agricultural credit. The Long Term Operations Fund has been established for making (i) *long-term* loans and advances to State Governments for a maximum period of 20 years to enable them to subscribe directly or indirectly to the share capital of co-operative credit institutions, (ii) *medium-term* loans (between 15 months and 5 years) to State co-operative banks for agricultural purposes (already referred to), (iii) *long-term* loans and advances to central land mortgage banks upto a maximum period of 20 years, and (iv) purchases of debentures of central land mortgage banks by the Reserve Bank of India. The Reserve Bank of India credited to the Fund an initial sum of Rs. 10 crores, and the annual contribution it has to make during the five years commencing with the year ending June 1956 has been fixed at not less than Rs. 5 crores; at the end of June 1958 the balance in the Fund amounted to Rs. 25 crores. The Stabilisation Fund is to be applied exclusively for making *medium-term* loans and advances to State co-operative banks to enable them to convert their short-term credit into medium-term credit wherever such conversion becomes necessary as a result

of drought, famine or other natural calamities. This Fund has to be credited with such sums as the Bank may contribute every year, subject to a minimum of Rs. 1 crore in each of the five years commencing with the year ending June 1956; the balance in the Fund as at the end of June 1958 amounted to Rs. 3 crores.

As regards *long-term* finance, the Reserve Bank undertook in 1948 to contribute upto 10 per cent of the debentures floated by central land mortgage banks provided they were guaranteed by the State Governments concerned in respect of repayment of principal and payment of interest. The Bank's share of contribution to such debentures was raised to 20 per cent in 1950. The scheme was taken a step further in 1953 when the Bank agreed upon a scheme of joint contribution to the debentures of land mortgage banks upto 40 per cent of the issue or the short-fall in public subscription whichever was less, one-half of the subscription being on behalf of the Government of India (by arrangements with the State Governments concerned) and the other half on account of the Bank. The central land mortgage banks using these facilities agreed to dispense loans for productive purposes upto not less than half the joint subscription by the Government of India and the Bank within one year. However, the scheme for joint purchase was given up from April 1956 as no provision has been made for long-term agricultural credit by the Government of India in the Second Five-Year Plan and the Reserve Bank continues to subscribe upto a maximum of 20 per cent of the issue. At the same time, it may be mentioned that the State Bank of India has initiated a policy of subscribing to debentures floated by co-operative land mortgage banks. The Reserve Bank is also empowered to grant loans and advances to central land mortgage banks upto a maximum period of 20 years and also to State Governments for subscribing directly

or indirectly to the share capital of co-operative credit institutions. Reference may also be made here to the facility of advances to State co-operative banks provided by the Reserve Bank of India against debentures of land mortgage banks under Section 17(4)(a), thus indirectly promoting issues of such bonds.

### **Inspection of Co-operative Banks**

As a complement to the provision of more liberal financial assistance from the Bank and in pursuance of one of the recommendations of the Informal Conference, the Reserve Bank has undertaken a scheme of voluntary inspection of co-operative banks, especially of those which borrow from it. This scheme, which was brought into force in December 1952, has been so designed as to be both constructive, and in broad details, complementary to the inspections made by the Registrars of Co-operative Societies under the auspices of the State Governments for purposes of departmental audit and administrative supervision. The Bank's inspections are designed to serve the wider purpose of improving the machinery and operations of co-operative credit. Since the introduction of this scheme, all State co-operative banks have been inspected, some of them more than once, and it is the Bank's intention to extend the scheme to cover more sectors of the co-operative credit structure.

### **Standing Advisory Committee on Agricultural Credit**

The Informal Conference convened by the Bank in 1951 had suggested closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank of India on the other, and in this context recommended the establishment of a Standing Advisory Committee on Agricultural Credit. In accordance

with this recommendation, a Standing Advisory Committee consisting of 14 members was set up in July 1951 for advising the Bank "on matters pertaining to its Agricultural Credit Department and subjects allied to those matters." Since its inception, the Committee, among other things, has evolved suitable standards with regard to different aspects of co-operative banking and administration, such as, the maintenance of fluid resources, uniformity of audit classification, etc., and tendered advice on various matters relating to the progress of the co-operative movement in the country. Recently, this Committee was reconstituted into a smaller body with only six members, in accordance with one of the recommendations of the Rural Credit Survey Committee, with provision to co-opt additional members either for a period of time or for the purpose of a particular meeting.

### **Formulation of Schemes for Reorganisation**

Another significant development in recent years has been the organisation by the Reserve Bank of a series of visits by its officers to various States in 1952-54, with a view to aiding the formulation by the State Governments of schemes for reorganising the co-operative movement on a planned basis. The general inadequacy of co-operative development was indicated by the fact that upto 1952-53 only seven State co-operative banks had taken advantage of the facilities for financial accommodation provided by the Reserve Bank. In some States, there was no State co-operative bank at all, while in others, the apex banks required considerable reorganisation, both financially and administratively, so as to qualify for assistance from the Reserve Bank. Or again, the central or district banks or, as was generally the case, the primary credit societies themselves needed rehabilitation. The object of the visits was to suggest ways and means of reorganising the co-operative structure and establishing apex

banks in States where they did not exist. Examples of steps taken as a result of those joint consultations were the establishment of State co-operative banks in several States (including Saurashtra, Madhya Bharat, Rajasthan, Travancore-Cochin, PEPSU and Himachal Pradesh) and reorganisation of some State co-operative banks in States like West Bengal, Hyderabad, Mysore and the Punjab. Whether the problem was one of establishing apex banks or reorganising the existing ones, the Bank has in all suitable cases advised a policy of State contribution to share capital. Nor did the plans formulated stop with the creation or reorganisation of State co-operative banks; they broadly covered the entire co-operative credit structure, including proposals for the rationalisation of central financing agencies and the establishment of a proper network of primary credit societies which are basic to the movement. The progress achieved in these directions is indicated by the fact that as on March 31, 1958 as many as 17 State co-operative banks availed themselves of the financial assistance from the Bank. Plans were also formulated for the establishment of new central land mortgage banks and the reorganisation of existing ones. New central land mortgage banks have since been organised in the erstwhile States of Saurashtra and Hyderabad and in the States of Assam, Kerala, the Punjab and West Bengal.

### **Training of Co-operative Personnel**

One of the main obstacles to the rapid growth of the co-operative movement in several States has been the absence of competent and trained co-operative personnel, itself the result of inadequacy of training arrangements. Consequently, as part of the Bank's manifold promotional and developmental activities in the field of co-operation, the Bank has been actively participating in the setting up of

institutions for the training of co-operative personnel. The Bank organized in 1952 an all-India training centre for co-operative personnel in conjunction with the Bombay Provincial Co-operative Institute at the Co-operative Training College, Poona. This centre provides training facilities for personnel of senior and intermediate categories of the Co-operative Department as well as of co-operative institutions. It also trains a few private candidates in the intermediate course. It was, however, felt that these facilities met only a small part of the need for training. The question of widening the scheme of co-operative training for the different categories of personnel was, therefore, discussed with the Government of India in 1953, and in November of that year a Central Committee for Co-operative Training was set up jointly by the Reserve Bank and the Government of India, for formulating and implementing a composite scheme for the training of co-operative personnel at the senior, intermediate and junior levels. The Agricultural Credit Department of the Reserve Bank functions as the Secretariat of the Central Committee. The Reserve Bank has undertaken the financial responsibility in regard to the training of the higher and intermediate grade personnel.

In accordance with the scheme formulated by the Central Committee, the training of senior co-operative officers continues to be given at the Co-operative Training College at Poona, where about 40 officials are trained every six months. The training of intermediate personnel is in progress at five regional centres, *viz.* Poona, Madras, Ranchi, Indore and Meerut with capacity to train about 220 candidates a year. Besides this regular long-term course, the five regional centres are also conducting special short-term courses in co-operative marketing to meet the needs of trained personnel for development in this field. A special course in land mortgage banking

has also been organised at the Regional Co-operative Training Centre at Madras.

In response to the demand for trained officers to work in the Community Project Areas and the National Extension Service Blocks, the Central Committee has also organised, at the request of the Ministry of Food and Agriculture and the Community Projects Administration, a separate course for Block Level Co-operative Officers at eight centres with a total capacity to train about 700-800 persons a year. These eight Block Level Co-operative Officers' Training Centres are located at Himayatsagar (near Hyderabad), Tirupati (in Andhra Pradesh), Bhavnagar (in Bombay), Kalyani (in West Bengal), Dhuri (in the Punjab), Faizabad (in Uttar Pradesh), Gopalpur-on-Sea (in Orissa) and Kotah (in Rajasthan). These centres are financed by the Government of India.

Arrangements for the training of junior co-operative personnel, which is the responsibility of the State Governments, are made under the scheme of the Committee on a state-wise basis and 46 schools are already in operation all over the country. These schools are financed by the respective State Governments with assistance from the Government of India on an agreed basis.

## PROVISIONS GOVERNING THE GRANTING

Section	Purpose	Type of Lending	Duration
17 (2) (a)	Financing <i>bonafide</i> trade or commercial transactions	Purchasing or rediscounting of bills of exchange and promissory notes drawn on and payable in India for this purpose	Maturing within 90 days from the date of the purchase or rediscount
17 (2) (b)	Financing of seasonal agricultural operations and marketing of crops (including mixed farming activities and processing of crops prior to their marketing)	Purchase or rediscounting of bills of exchange and promissory notes drawn for this purpose and payable in India	15 months. In actual practice the period of the credit is restricted to 12 months
17 (2) (bb)	Financing the production or marketing activities of cottage and small-scale industries approved by the Bank	Purchase or rediscount of bills of exchange & promissory notes drawn for this purpose and payable in India	Maturing within 12 months from the date of the purchase or rediscount
17 (4) (a)	General banking business or for augmenting cash resources of State co-operative banks	Loans and advances	Repayable on demand or at the expiry of a period not exceeding 90 days
	Financing of seasonal agricultural operations and marketing of crops	Loans and advances	Although the loan is repayable on demand, the Bank does not ordinarily recall a loan before 12 months
17 (4) (c)	Financing <i>bonafide</i> commercial or trade transactions	Loans and advances	Repayable on demand or at the expiry of periods not exceeding 90 days
	Financing seasonal agricultural operations and marketing of crops	— do —	Although the loan is repayable on demand, the Bank does not ordinarily recall a loan before 12 months
	Financing the production or marketing activities of cottage and small-scale industries as approved by the Bank	— do —	— do —



## OF RURAL CREDIT BY THE BANK

Security	Rate of interest*	Remarks
Trade or commercial bills bearing two or more good signatures one of which should be that of a scheduled or a State co-operative bank	Bank rate	
Agricultural paper bearing two or more good signatures one of which should be that of a scheduled or a State co-operative bank	2 per cent below the bank rate i.e., 2 per cent at present	
Bills of cottage and small-scale industries payable in India bearing two or more good signatures one of which should be that of a State co-operative bank or a State Financial Corporation provided the repayment of principal and payment of interest are fully guaranteed by the State Government concerned	1½ per cent below the bank rate	Handloom industry has been approved for this purpose
Stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest money	Bank rate	The debentures of central land mortgage banks guaranteed by the respective State Governments have been treated on par with Government securities for purposes of advances under this section
— do —	2 per cent below the bank rate	
Promissory notes of the constituents supported by State co-operative bank's demand promissory notes	Bank rate	
— do —	2 per cent below the bank rate	In States where the co-operative movement is not sufficiently developed, loans are granted against the guarantee of State Governments
Promissory notes of the constituents supported by State co-operative bank's demand promissory notes, provided the repayment of principal and payment of interest are fully guaranteed by the State Government concerned	1½ per cent below the bank rate	Handloom industry has been approved for this purpose

\*The concessional rate applies only in the case of State co-operative banks.

Section	Purpose	Type of lending	Duration
17 (4) (d)	Financing of <i>bonafide</i> commercial or trade transactions and/or agricultural operations and marketing of crops	Loans and advances	Repayable on demand or at the expiry of periods not exceeding 90 days
17 (4A) as determined under Section 46A 2(a)	For subscription directly or indirectly to the share capital of co-operative credit societies	Loans and advances to State Governments	Repayable within 20 years from the date of granting the loan. In actual practice the loans are restricted to a period of 12 years
46A 2 (b)	For agricultural purposes, including reclamation of land, bunding and other land improvements, preparation of land for orchards and plantations, irrigation sources, purchase of live stock implements, machinery and transport equipment, etc. and for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine	Loans to State co-operative banks	For periods between 15 months and 5 years. In actual practice loans are restricted for a period of 3 years but 25 per cent of loans can be given upto 5 years if desired
46A 2 (c)	Making of loans and advances to central land mortgage banks	Loans and advances	For fixed periods not exceeding 20 years
46A 2 (d)	Purchase of debentures of central land mortgage banks	Purchase of debentures	
17 (4A) as determined under Section 46(B)	Assistance to State co-operative banks to enable them to pay arrears in respect of accommodation obtained under Section 17(2) and 17 (4) which they are not able to pay owing to drought, famine and other natural calamities.	Loans and advances	15 months to 5 years

Security	Rate of interest*	Remarks
Promissory notes of any scheduled or State co-operative bank supported by documents of title to goods, transferred or assigned or pledged to any such bank.	Bank rate in case of loans for trade and commercial transactions. 2 per cent below the bank rate for seasonal agricultural operations or marketing of crops First 2 years — Nil Next 3 years — $2\frac{1}{4}\%$ Next 4 years — $2\frac{1}{2}\%$ Next 3 years — $3\%$ Above 12 years in exceptional cases, next 2 years and after 14th year } $3\%$ and $3\frac{1}{2}\%$ respectively.	This type of lending has not been in operation owing to the absence of licensed warehouses.  Loans are made from the National Agricultural Credit (Long Term Operations) Fund. The rates of interest are subject to modification.
Such securities as may be specified in each case. Loans should be guaranteed by the State Governments concerned	2 per cent below the bank rate for agricultural purposes ; bank rate for purposes connected with agricultural activities.	Purchase of shares in co-operative sugar factories by small and medium cultivators has been approved for this purpose
Guarantee of the State Government concerned as regards the repayment of principal and payment of interest  — do —		} The National Agricultural Credit (Long Term Operations) Fund has not yet been drawn upon for these purposes.
State Government guarantee		
		Loans are to be made from the National Agricultural Credit (Stabilisation) Fund.

---

\* The concessional rate applies only in the case of State co-operative banks.

## VII

# THE RESERVE BANK AND INDUSTRIAL FINANCE

11 The expanding role of the Reserve Bank in the field of industrial finance is yet another feature of Indian central banking. The need for speedy industrialisation on the one hand and the lack of adequate facilities in the domestic capital market on the other clearly pointed to the need for adapting and enlarging the institutional structure so as to meet the medium and long-term credit requirements of the industrial sector. The Bank has played an active part in the setting up of special agencies to purvey term credit, *viz.*, the Industrial Finance Corporation of India and the various State Financial Corporations; the Bank has provided a portion of the capital and borrowing facilities to these institutions and renders them, especially the State Financial Corporations, much assistance in their organisation and working. 7)

### Industrial Finance Corporation of India

The Industrial Finance Corporation of India was established in 1948 with the specific intention of making medium and long-term credit more readily available to public limited companies and co-operative societies, particularly in circumstances where normal banking accommodation was inappropriate or recourse to issues in the market was impracticable. The assistance of the Reserve Bank to the Corporation has been both financial and organisational.

Thus, of the Corporation's paid-up capital of Rs. 5 crores, over one-fifth has been subscribed to by the Bank; the Bank has also subscribed to the bonds issued by the Corporation. To strengthen the financial position of the Corporation, the Bank (as also the Government of India), following a suggestion of the International Bank for Reconstruction and Development, agreed to forego the dividends accruing on its shares in the Corporation. Such dividends are required to be credited to a special reserve fund until the aggregate of the sums so credited exceeds Rs. 50 lakhs. In addition, an amendment to the Reserve Bank of India Act made in 1953 authorises the Bank to grant loans and advances, both short and medium-term, to the Corporation. Section 17 (4B) provides for the making of loans and advances to the Corporation

- (a) "repayable on demand or on the expiry of fixed periods not exceeding ninety days from the date of such loan or advance, against securities of the Central Government or of any State Government; or
- (b) "repayable on the expiry of fixed periods not exceeding eighteen months from the date of such loan or advance, against securities of the Central Government of any maturity or against bonds and debentures issued by the said Corporation and guaranteed by the Central Government and maturing within a period not exceeding eighteen months from the date of such loan or advance:

Provided that the amount of loans and advances granted under clause (b) shall not at any time exceed three crores of rupees in the aggregate."

Thus, while no maximum has been laid down in the Act on the outstandings of short-term accommodation

(repayable within 90 days) granted against Government securities, the medium-term assistance (maturing within 18 months) should not on any date exceed Rs. 3 crores.

By virtue of its participation in the share capital of the Corporation, the Bank is represented on the Board of Directors of the Corporation by two of its nominees who also have the opportunity to function on the Central Committee of the Corporation. The Bank has further assisted the Corporation by advising it on several important matters of policy while on occasions it has also spared the services of its executives to man positions of responsibility in the Corporation. Thus, the first Managing Director was an official from the Bank as is the present General Manager. Since the inception of the Corporation upto end-March 1958, the amount of loans sanctioned by the Corporation totalled Rs. 57·42 crores of which Rs. 32·03 crores was disbursed, the amount of loans disbursed during the year 1957-58 being Rs. 7·93 crores. The outstanding amount of loans and advances as at the end of March 1958 was Rs. 26·30 crores which formed about 77 per cent of the total assets of the Corporation. With a view to enabling the Corporation to meet the growing demand for funds for industrial development, the Central Government has agreed to make available to the Corporation during the Second Plan period a sum of Rs. 22·25 crores; the Corporation has availed itself of this facility to the extent of Rs. 15 crores in the two years 1956-58. Further, the Industrial Finance Corporation Act, 1948 has been amended to enable the Corporation to borrow sums aggregating ten times its paid-up capital and reserve fund, instead of five times as hitherto. This limit excludes borrowings by the Corporation of short-term funds against Government securities from the Reserve Bank as also its borrowings in foreign currency.

### State Financial Corporations

The establishment of the Industrial Finance Corporation did not, however, meet adequately the medium and long-term credit needs of medium and small-scale industries. Hence, in 1951 the State Financial Corporations Act was passed; this was in the nature of an enabling legislation providing for the establishment of financial corporations by State Governments for meeting term credit needs of such industries as were located in their respective territories.<sup>1)</sup> Such corporations are now functioning in all but three States *viz.*, Madras, Mysore and Jammu and Kashmir. In Madras, however, the Madras Industrial Investment Corporation Ltd., which was set up in 1949 under the Companies Act, functions on the lines of a State Financial Corporation.

The Bank has participated in the share capital of the various financial corporations to the extent of 10 to 20 per cent of their paid-up capital; the Bank's share has aggregated Rs. 2 crores so far. Provision has been made in the Reserve Bank of India Act, for the Bank to lend to the State Financial Corporations also. In addition to the short-term accommodation granted by way of loans and advances under Section 17(4) of the Act, the Bank is authorised under Section 17(2)(bb) to purchase, sell and rediscount bills of exchange and promissory notes, bearing two or more good signatures one of which shall be that of a State Financial Corporation and drawn or issued for the purpose of financing the production or marketing activities of cottage and small-scale industries approved by the Bank and maturing within 12 months, provided the repayment of the principal and the payment of interest of such bills or notes is fully guaranteed by the concerned State Government. The Corporations have been provided with banking facilities and they can open accounts not only with the Bank but also with its agents.

The Bank has one nominee on the Board of Directors of each of the State Financial Corporations who could also function on their respective executive committees. The State Financial Corporations have generally been consulting the Bank in the matter of appointing managing directors and there have been instances of the Bank deputing its own officers to work as managing directors. The Bank's relationship with these Corporations is particularly close. Apart from the statutory provision which specifies that the Bank should be consulted before the Corporations issue any bonds or debentures for the purpose of increasing their working capital or frame regulations under the State Financial Corporations Act, the Bank's advice and assistance are generally sought by the Corporations on important matters of policy, as for instance, the investment of their funds. The State Financial Corporations Act also provides that the State Governments should consult the Bank in regard to instructions on questions of policy that may be issued by them to the Corporations. The Bank also helps the Corporations in co-ordinating their functions. In this connection, the Bank has been convening annually a conference of the representatives of the State Financial Corporations, the Industrial Finance Corporation of India and other concerned interests so as to facilitate discussions and mutual exchange of views on various important issues of common interest to them. In the course of the discussions at a conference the Corporations had expressed themselves in favour of statutory inspection of the working of the Corporations and their books and accounts by the Bank and agreed that until the Act was amended, such inspections should be on a voluntary basis. The State Financial Corporations Act has since been amended and the Bank is now empowered, with the approval of the Central Government, to conduct inspections of State Financial Corporations. Government have given general approval to annual inspections



which are intended to be made a regular feature of the Bank's activities.

These Corporations as also the Industrial Finance Corporation of India submit to the Bank certain periodical statements regarding their operations. In addition to supplying the Bank with their annual reports and audited statements of accounts, the Corporations are required to furnish, annually, in the case of Industrial Finance Corporation of India and quarterly in the case of State Financial Corporations, or as frequently as the Bank may require, statements showing the classification of their loans and investments, loans guaranteed and underwriting agreements entered into by them.

The working of the financial corporations in 12 States\* shows that the loans sanctioned by them have been gradually rising while the amounts disbursed aggregate over one-half of those sanctioned. As on March 28, 1958, they had a paid-up share capital of over Rs. 13 crores. As on the same date the outstanding amount of loans disbursed by them was Rs. 9.35 crores. However, the advances made by some of the financial corporations have been relatively small. One of the more important reasons for this has been the absence of facilities for disbursement and securing of the loans at centres where the industries are located. On the other hand, the important role assigned to the small industrial sector in the Second Plan and the present lack of adequate facilities for its financing had occasioned the need for a more positive approach to the problem of providing it with suitable credit facilities. To this end the State Bank of India, in consultation with the Reserve Bank, has drawn up a

---

\*Including the Madras Industrial Investment Corporation, Ltd.

*pilot scheme* whose object is to co-ordinate effectively the work of the different agencies catering to the financial needs of small-scale industries. It is expected that in the light of the experience gained in working the *pilot scheme*, a general scheme for the co-ordinated provision of credit, in which each agency is assigned a particular function, could be drawn up and a positive enlargement of credit facilities to small industries obtained.

The close association of the Bank with the functioning of the various financial corporations has helped to bring about a measure of co-ordination between their activities. Thus, a convention has been built up whereby the Industrial Finance Corporation of India generally entertains loan applications for amounts of over Rs. 10 lakhs, while on their part the State Financial Corporations consider propositions for amounts within the limits prescribed in their statutes and in any case not exceeding Rs. 10 lakhs.

### **Banks and Industrial Finance**

The establishment of the above corporations, as also that of the Industrial Credit and Investment Corporation of India, has undoubtedly gone some way in meeting the financial requirements of industries. However, having regard to the considerable size of the programme of industrial development that the country has set for itself, the institutional machinery for the provision of industrial finance would require to be strengthened, particularly so far as medium-term finance is concerned. In this connection the role of the commercial banks assumes importance in view of their wide contact with industry and trade and the flexibility of their operations.<sup>(1)</sup>

The possibility of Indian banks extending their activities into the sphere of medium-term, if not long-term, financing

of industry has been discussed in India (as in several other countries) at various stages in the course of evolution of the banking system. The Central Banking Enquiry Committee considered the question in great detail over two decades ago, the majority of its members recommending against Indian banks undertaking term financing of industry. More recently, the Committee on Finance for the Private Sector recommended an indirect participation by banks in medium and long-term industrial finance. The International Monetary Fund Mission which visited this country in 1953 also made a similar recommendation.

While term lending has not been popular in this country, there is reason to believe that Indian banks, like their counterparts abroad, follow the practice of rolling over a substantial part of their advances. Thus, in fact though not in form, Indian banks have been making available some medium-term credit, and this practice has tended to assume larger dimensions recently. This, on the one hand, furnishes evidence of the gap in the institutional arrangements for the supply of medium-term credit facilities for industry and, on the other hand, draws attention to the urgency of a solution even from the point of view of safeguarding the liquidity of banks. The difficulty of obtaining finance is particularly great in the case of medium and small-sized industrial units. Special steps are being taken by Government to enlarge the financial facilities available to small-scale industries. Owing to the urgency of industrial development, a certain amount of combination of functions or multi-purpose growth of the banking structure appears unavoidable and may promise the best results on the whole in the present Indian situation, provided the system is operated with proper safeguards against impairment of the liquidity of the banking system.

The problem is, however, not merely one of liquidity. Steps will have to be considered for supplementing banks' resources and, to begin with, at any rate, the banks could hardly be expected to use any of their own (short-term) resources for the purpose. The Committee on Finance for the Private Sector had suggested that it might be possible to explore ways and means of increasing the resources of banks for provision of medium-term finance, by arranging for recourse to the Reserve Bank under proper safeguards through facilities analogous to the Bill Market Scheme. The principle of supplementing commercial banks' resources to enable them to extend some medium-term credit has now been accepted though the form in which it has been decided to assist banks is somewhat different from that envisaged by that Committee.

### **Refinance Corporation for Industry**

The Refinance Corporation for Industry Private Ltd., registered under the Companies Act, 1956, was set up on June 5, 1958 with an initial issued capital\* of Rs. 12·5 crores, contributed by the Reserve Bank (Rs. 5 crores), the State Bank of India (Rs. 2·30 crores), the Life Insurance Corporation (Rs. 2·50 crores) and 14 larger scheduled banks (Rs. 2·70 crores). The allocation of shares to the 14 larger scheduled banks has been in relation to the categories in which they have been grouped on the basis of the size of their deposits in India, the contributions by individual banks being within the range of Rs. 10 lakhs to Rs. 25 lakhs. The Government of India have agreed to place with the Corporation a sum of about Rs. 26 crores (as an interest-bearing loan for 40 years) representing the counterpart funds arising out of the

---

\*The authorised capital of the Corporation is Rs. 25 crores.

sale proceeds of the agricultural commodities supplied to this country in terms of the Indo-U.S. Agreement. The total resources of Rs. 38·5 crores available to the Corporation will be utilised to provide re-lending facilities against medium-term loans granted by the member banks to medium-sized units in the private sector. Loans by banks must be for the purpose of increasing production, primarily in industries included in the Second Five-year Plan or such other Plans as may succeed it.

Each of the 15 participating scheduled banks has been allocated a quota from the total funds of Rs. 38·5 crores, within which the bank may offer certain types of loans to the Corporation for refinance. For allotting these quotas, the banks have been grouped into four categories, with reference to the size of their deposits in India. The minimum limit of the quota is Rs. 1 crore and the maximum Rs. 3 crores. The State Bank of India, however, has been allotted a quota of Rs. 5 crores. The quotas will be subject to review every six months on the basis of the extent to which each bank has been able to utilise its quota. Loans to be eligible for refinance with the Corporation must be for periods between 3 and 7 years. Loans must be to medium-sized industrial concerns i. e., those having paid-up capital and reserves (excluding reserves for payment of taxes and normal depreciation reserves) not exceeding Rs. 2½ crores and in medium-sized amounts so that the maximum amount of loans to any one borrower will not exceed Rs. 50 lakhs. Lending banks will assume the full credit risk on loans submitted to the Corporation for refinance.

The management of the Corporation has been entrusted to a Board of Directors consisting of seven members; the Governor of the Reserve Bank is the Chairman, the other

directors being a Deputy Governor of the Reserve Bank, the Chairman of the State Bank of India, the Chairman of the Life Insurance Corporation and three representatives of the banks participating in the Corporation. The Chief Officer of the Industrial Finance Department of the Bank is the General Manager of the Corporation.

It is expected that the scheme would provide opportunities to the selected scheduled banks for extending formal term lending facilities to industries and the Corporation would be a significant means of providing liquidity against the eligible loans given by banks upto the extent of the quotas allotted to them.

## VIII

### EXCHANGE CONTROL

One of the essential central banking functions performed by the Bank is that of maintaining the external value of the rupee and for this purpose the Bank holds most of the nation's foreign exchange reserves. Membership of the International Monetary Fund requires, among other obligations, that the value of the rupee be expressed in terms of gold, the present parity being 2·88 grains of fine gold per rupee or Rs. 62·50 per tola. The day-to-day exchange management, however, calls for a link with one or the other of the major currencies commonly used in financing international trade. Nearly seventy per cent of India's total external transactions is financed in sterling, about ten per cent in dollars and the rest in rupees. The heavy reliance on sterling for financing the country's international transactions, the traditional financial ties with the U. K. and the facilities for finance available in the London market have made it expedient to continue the link of the rupee with the pound sterling for all practical purposes. The rupee-sterling ratio was fixed at 1sh. 6d. per rupee in 1927 and this parity has been maintained ever since.

#### **Bank's Exchange Obligations**

The foreign exchange obligations of the Bank are laid down in Section 40 of the Reserve Bank of India Act, which reads as under:

“The Bank shall sell to or buy from any authorized person who makes a demand in that behalf at its office in

Bombay, Calcutta, Delhi or Madras, or at such of its branches as the Central Government may by order determine, foreign exchange at such rates of exchange and on such conditions as the Central Government may from time to time by general or special order determine, having regard so far as rates of exchange are concerned to its obligations to the International Monetary Fund:

Provided that no person shall be entitled to demand to buy or sell foreign exchange of a value less than two lakhs of rupees.

*Explanation.*—In this section “authorized person” means a person who is entitled by or under the Foreign Exchange Regulation Act, 1947, to buy, or as the case may be, sell the foreign exchange to which his demand relates.”

The Bank buys both spot and forward sterling (for a period upto six months) from scheduled banks authorised to deal in foreign exchange at 1sh. 6d. Sales of spot sterling are effected by the Bank at 1sh. 5-63/64d, the rate for forward sterling being lower by 1/64d. per rupee. The narrow margin between the Bank's buying and selling rates for spot sterling and its provision of forward cover at a very low rate offer an extremely convenient mechanism for the authorised dealers to convert rupees into sterling and *vice versa* and enable them in turn to meet the requirements of the public for sale or purchase of sterling at fine rates, thus ensuring the day-to-day stability of the external value of the rupee. The buying and selling rates of scheduled banks for sterling for transactions with the public are also fixed in conformity with these rates by the Exchange Banks' Association in consultation with the Reserve Bank.

### **Sterling Area Arrangements**

Only a small proportion of the country's external transac-



tions are financed in currencies other than pound sterling. The unrestricted convertibility of these currencies within the sterling area by virtue of the support extended by the various central banks at near parity levels enables the authorised dealers in India to obtain cover for them at fine rates either in London or in the sterling area centre concerned. As regards exchange rates in India for non-sterling area currencies, they are generally governed by the rates in London; authorised dealers obtain their current requirements and forward cover for non-sterling area currencies in the London exchange market or from banks in the monetary area whose currency they wish to buy or sell. Banks in India are free to quote their own individual rates but they are naturally in step with the rates in overseas centres.

India is a member of the group of countries known as "sterling area" with the United Kingdom as the centre country. The essential features of this association which have evolved over a long period are (a) the maintenance of a large portion of the monetary reserves of the member countries in sterling, (b) the maintenance of exchange parity of the domestic currency with sterling through operations in spot and forward sterling and (c) the pooling of currencies of non-sterling area countries, particularly the U.S. and Canadian dollars. Before the war the Reserve Bank of India's sterling holdings, which constituted the main reserves of the country, were small in relation to the level attained during the years of World War II. In the five years preceding June 1945, the foreign assets of the Reserve Bank of India rose from Rs. 152 crores to Rs. 1,422 crores owing to large balance of payments surpluses resulting mainly from India's contribution of goods and services to the Allied war effort. As a result of partition and various agreements concluded with the U.K. involving purchase of defence stores and pension annuities and drawings

for meeting balance of payments deficits, the foreign assets of the Bank were substantially brought down in subsequent years and at the end of March 1958 stood at Rs. 267 crores, besides the gold reserve valued at Rs. 118 crores.

The sterling area mechanism involves a pooling of exchange reserves of countries other than the U.K. in the form of sterling and, as the practice has developed, financing of the bulk of their foreign trade in sterling. Surplus non-sterling area currencies are sold to London by the commercial banks in the member countries in return for sterling for their use and/or its resale to the national monetary authorities. Although the maintenance of sterling reserves even before World War II meant in effect the concentration in London of non-sterling area currencies, the arrangements that came to prevail during and after the War represented a departure in one important respect. Before the War, the member countries enjoyed complete freedom for the purchase of non-sterling area currencies from the U.K. The need for conservation of non-sterling area currencies for the financing of the war and the postwar difficulties of the sterling area in reaching a balance in their transactions with the non-sterling area countries, however, necessitated considerable restraint being exercised in the expenditure of non-sterling area currencies, particularly of the U.S. dollars. Although this leads to discrimination in import policies as between dollar and other commodities, the extent of such discrimination varies from one member country to another and is autonomously determined by each member.

### **Exchange Control—Objectives**

∞ While the maintenance of the external value of a currency is achieved primarily through the pursuit of appropriate monetary and fiscal policies, in the abnormal conditions of war and postwar years, most countries of the world, including India,

have found it necessary to employ measures to regulate directly the demand by the nationals for foreign exchange as well as the disposal by them of the foreign exchange earned. In the context of Indian conditions, when a series of economic Plans are being implemented such direct control has a special place. The regulation is done in India through trade (import and export) controls as well as through exchange control.<sup>15</sup>

Exchange control, as administered by the Bank, does not involve any direct regulation of imports and exports which is the responsibility of the Ministry of Commerce and Industry of the Central Government. The Bank, however, exercises supervision over the prescribed methods of payment for imports and the repatriation of proceeds of exports. The administration of rules in respect of what are known as invisible transactions is carried out by the Bank.

<sup>15</sup>Exchange control has been in force in India from the time of the outbreak of World War II when it was introduced by virtue of the emergency powers derived under the financial provisions of the Defence of India Rules. During the later years of the war and in the postwar period, India had been running large deficits in her balance of payments. It was felt that control of payments would be necessary indefinitely though its extent might vary from time to time. It was, therefore, decided to place the control on a permanent basis and the Foreign Exchange Regulation Act of 1947 was enacted. The Act is administered by the Bank in accordance with the general policy laid down by the Government in consultation with it. The wartime control was confined to transactions with non-sterling area countries only. The large accumulation of sterling balances permitted freedom in transactions with the sterling area. In the middle of 1947, following the decision to block the major portion of the sterling balances

under a financial agreement concluded by the U.K. with India, it became necessary to extend the control to sterling area countries (excluding Pakistan) as a measure of conservation of available foreign exchange. Exchange control was extended to Pakistan and Afghanistan with effect from February 27, 1951, the Pakistan rupee being treated as a foreign currency for all purposes in the same manner as the Ceylon rupee or the Burmese rupee. In view of the mounting imports under the impetus of the Plan in relation to the rather inadequate earnings of foreign exchange to pay for them it remains necessary to ration foreign exchange so as to distribute it among competing import demands in order to obtain the maximum advantage to the nation.

### **Authorised Dealers**

In exercise of the powers conferred under the Foreign Exchange Regulation Act, the Bank has licensed certain commercial banks to deal in foreign exchange. Banks so licensed, known as authorised dealers in foreign exchange, consist of such of those banks as were doing foreign exchange business prior to the outbreak of World War II as well as certain other banks which have been granted licences to deal in foreign exchange since that date. Some of these licensed banks have been authorised to deal in sterling area currencies only but the majority of them are empowered to deal in all foreign currencies in accordance with the regulations laid down by the Bank. As indicated earlier, authorised dealers are allowed to cover spot and forward exchange transactions at market rates locally, in the London exchange market or with banks in the country of the currency concerned and these spot rates are permitted to fluctuate between the official buying and selling rates of the Bank of England. India being a member of the sterling area, all excess foreign currencies acquired by authorised dealers are sold

in the London market against sterling, the resultant proceeds being repatriated to this country by the sale of sterling to the Bank.

### Remittances in Foreign Exchange

Payments to foreign countries fall into the following categories:

*Payment for imports.*—Authorised dealers in foreign exchange are permitted to open letters of credit or make remittances in payment for imports into India provided the goods are covered by a valid exchange control copy of an import licence or the goods are covered by an Open General Licence. Advance remittances are not normally permitted except in the case of import of capital goods where deposits are required to be made with the overseas manufacturers.

*Private remittances.*—Nationals of sterling area countries other than India who are temporarily resident, but not domiciled, in India, are permitted to remit in any currency of the sterling area upto a specified ceiling amount\* out of their current income to any sterling area country for maintenance of their families, payment of insurance premia, etc. and authorised dealers may make such remittances without reference to the Reserve Bank. Foreign nationals temporarily resident in India are similarly granted reasonable remittance facilities for purposes, such as, the support of their families.

*Travelling expenses.*—Reasonable exchange facilities are

---

\* For countries other than Pakistan, the aggregate amount remitted should not exceed £ 150 per month for each individual. Residents in India of Pakistani domicile and persons domiciled in India who have dependents are permitted to make remittances not exceeding Rs. 50 per month for their support.

granted for business travel, education and medical treatment abroad according to the scales laid down for the purpose.

*Other purposes.*—Remittance of freight, profits, dividends and interest to beneficiary owners resident in any country outside India are allowed freely. All other types of remittances which are of a current nature are also allowed.

*Capital remittances.*—Sterling area nationals who are temporarily resident, but not domiciled, in India are permitted to repatriate their entire assets to any sterling area country at the time of retirement. Other foreign nationals who are resident, but not domiciled, in India are permitted to transfer at the time of retirement to their country of domicile all their current remittable assets. Indian nationals and persons domiciled in India are permitted to transfer their assets upto a stipulated limit while emigrating to any country outside India.

#### **Inward capital remittances**

All applications for investment of foreign capital in India as well as for their repatriation require the prior approval of the Bank. Repatriation facilities are freely granted to residents in the sterling area and Scandinavian countries. In the case of residents of other countries, repatriation facilities are granted only in respect of investments after January 1, 1950 in projects approved by the Government of India.

#### **Bullion**

As part of the control on exchange, the import of gold and silver into India and the export of gold are prohibited except under a licence obtained from the Bank. The Bank does not at present issue any licences for the export of gold or import of bullion, with the exception of imports from Tibet of silver coin current in that region of China which have been freely

licensed since May 3, 1956, with a view to facilitating Indo-Tibetan trade. The export of silver is subject to licence by the Export Trade Control authorities.

### **Export Control**

The control of foreign exchange also covers the earnings of foreign currencies from exports of goods from this country to countries other than Nepal, Tibet and Bhutan. The export of goods to foreign countries is permitted, provided the exporter makes a declaration on a prescribed form to the Collector of Customs that the foreign exchange representing the full value of the goods has been or would be disposed of in a manner and within the period specified by the Reserve Bank. The control on exports is designed to ensure that foreign exchange proceeds of exports are remitted to India and not retained abroad and also to see that exports are financed in certain specified ways so that export receipts of the country are at the maximum. The system is worked in collaboration with the Customs authorities and the banks and shippers are required to complete statements setting out therein the value of shipments and the method of finance. The Customs do not permit shipments to specified countries without production of a shipment form which, on receipt, is forwarded to the Bank. The other copies of the shipment form are delivered by the shippers to their bankers at the time of negotiation of their bills covering the export. These are also submitted to the Reserve Bank which checks up the forms with the originals received and thus ensures that all shipments are accounted for. The procedure is the same whether the goods are shipped under a definite sale contract or on a consignment basis except that in the latter case the Exchange Control Department makes arrangements to ascertain the actual sale value from the shippers to ensure full recovery of the foreign exchange proceeds in India.

### **Export of Jewellery, Currency Notes and Securities**

<sup>11</sup> The Exchange Control Regulations also cover the export of jewellery and currency notes, which are subject to restrictions and also of securities which include not merely stocks, shares, bonds and debentures, Government securities or coupons or warrants representing dividend or interest, but also life insurance policies and deposit receipts in respect of securities and units and sub-units of unit trusts. The export of securities is prohibited except under a licence from the Bank, and persons wishing to send securities abroad for transfer, sale, etc., are required to apply to the Bank for a licence through an authorised dealer in foreign exchange. The transfer of rupee securities or the creation or transfer of an interest in a rupee security to or in favour of persons resident outside India is prohibited except with the general or special permission of the Bank. Similarly, the transfer of securities from registers in India to registers outside the country and the issue, whether in India or elsewhere, of securities which are registered or to be registered in India to persons resident outside is also prohibited without the Bank's prior approval.

### **Statistical Returns**

In order to exercise proper supervision over sales of foreign exchange by authorised dealers, the Bank has made it obligatory for the authorised dealers to submit statements in the prescribed forms of their sales of foreign exchange supported by the relevant application forms; these are scrutinised in the Exchange Control Department of the Bank to ensure that there is no breach of the exchange regulations. The Bank also receives returns from authorised dealers with regard to the acquisition of foreign exchange. The above returns, in addition to ensuring that the regulations are being observed,



enable the compilation of India's balance of payments data, which is attended to by the Bank's Department of Research and Statistics.

## IX

### **ECONOMIC AND STATISTICAL RESEARCH**

The formulation and execution of monetary policy, which is the most important of the Bank's functions, depends to a very large extent on the ready availability and quick analysis of accurate, comprehensive and up-to-date background information. The Department of Research and Statistics has been so organised as to provide the nucleus of a research counterpart to all important operational activities undertaken by the Bank. It is the general function of this department to bring to bear upon operational problems the fruits of research and to assist in the formulation of appropriate monetary and credit policies of the Bank in the light of changing economic conditions. Thus, for instance, the Banking Research Division of this department forms the counterpart, on the research plane, of the Departments of Banking Operations, Banking Development and Industrial Finance and co-ordinates its activities with their operations ; the Division of Monetary Research finds its broad field of work in the central banking functions of currency and public debt management which are operated, respectively, by the Chief Accountant's Office and the Secretary's Office; the Division of International Finance of the department derives much of the data for its balance of payments estimates from the Exchange Control Department and maintains close touch with its operations; the Rural Economics Division has a sphere of study and work complementary to the Agricultural Credit Department and the Division of Statistics attends to the statistical representation of all

the Bank's affairs and of related fields of information. It is the duty of this department to keep the Bank's authorities informed of developments in the economic sphere in general and in the financial and monetary fields in particular. By virtue of its position as the central bank, the Reserve Bank is called upon to tender advice from time to time to the Union and State Governments on various economic and financial problems, and also to assist generally in the formulation of some of their economic and financial policies. To this end, it becomes necessary to collect and assimilate continuously and on a comprehensive basis, economic, financial and banking data, to study monetary and related problems and generally to keep a watch over the trends and developments at home and abroad; and this forms part of the conspectus of work of the research department. The department makes available to the public the results of some of its research work through the Bank's monthly Bulletin and also publishes a series of official reports, such as, the Report on Currency and Finance, the Report on the Trend and Progress of Banking in India, the Report of the Central Board of Directors on the operations of the Bank and the Statistical Tables relating to Banks in India (see chapter XI).

The department works under the general direction of the Principal Adviser to the Bank who is assisted by the Economic Adviser and the Statistical Adviser. At present, the department consists of five divisions, each under a Director of Research. The Division of Monetary Research is concerned with the study of problems relating to internal finance which cover subjects like currency and money supply, money and capital markets, savings and public finance including taxation and public debt, as well as prices and industrial production. The policy aspects of the use of the instruments of general credit control by the Reserve Bank, such as bank rate, etc., call for special study in this division, which also

attends to general economic intelligence work. The Division of Banking Research conducts a number of surveys of banking statistics, which are intended to help the Bank in formulating its banking and credit policies and operating the selective credit controls. In addition to the above, the division undertakes research on banking problems and also keeps in close touch with the trends and developments abroad in the banking sphere and particularly the changes in monetary policies. The division will also be responsible for advising on the operation of the Bank's powers to vary the reserve requirements of banks. The division gives particular attention to the study of the wider aspects of problems which fall within the scope of the Departments of Banking Operations, Banking Development and Industrial Finance. The Division of International Finance is in charge of the work of compilation and refinement of India's balance of payments statistics, including data on visible and invisible trade, capital transactions, foreign exchange reserves and changes in the country's foreign liabilities and assets. The primary task of the division is to process the data obtained from the Exchange Control Department of the Bank and to present it in forms suitable for economic analysis and formulation of economic policy and also to meet the requirements of international institutions like the I.M.F. and the I.B.R.D. Another important field of the division's work relates to reviewing the economic situation, particularly balance of payments, of other countries. The increasing variety and widening range of problems of international finance, including international borrowing and foreign investment has entailed a considerable extension of the scope of work of this division which was formerly designated as the Balance of Payments Division. The Division of Rural Economics collects and studies the background material regarding agricultural production, marketing and price trends and systems of land tenure and tenancy laws. It also

studies problems pertaining to rural credit and finance. The division was actively associated with the work in connection with the All-India Rural Credit Survey undertaken by the Bank in 1951. Its most important current function consists in conducting a follow-up survey to review and assess the progress of implementation of the recommendations of the Rural Credit Survey Committee. The Statistics Division is responsible for the compilation of statistical data for the Bank's publications, and the supply of important general statistical information, such as, on production and prices both for the Bank's internal use as well as for the use of international bodies like the International Monetary Fund. The division also publishes a series of index numbers of prices of gilt-edged and industrial securities and yields on industrial securities. The division collaborates in the surveys undertaken by other divisions, particularly in regard to the sampling and other technical work. Analysis of company accounts is a very important item of work done by the division. The division also prepares *ad hoc* studies from time to time.

## X

# INTERNAL ORGANISATION OF THE BANK

The present internal organisation of the Bank reflects the marked expansion in the volume and range of the Bank's activities that has taken place since it was established, and more especially during the last ten years or so. Alongside the continuous growth in the Bank's activities, its organisational set-up has had to be considerably expanded. Some idea of the expansion in the Bank's work since the war may be had from the number of persons employed by the Bank; from 2,574 as on June 30, 1939, the Bank's total strength has increased to 8,783 as on May 31, 1958. Functional specialisation with adequate co-ordination is the main feature of the Bank's internal organisation. It has already been mentioned that the primary functions of the Bank regarding note issue and general banking business are exercised through two separate departments, namely, the Banking and the Issue Departments. The Banking and the Issue Departments constitute what are known as the 'local' offices/branches of the Bank. The Bank's functions as regards inspection and supervision of banks, formulation of policies especially regarding extension of banking and credit facilities, particularly in the rural areas, exchange control and rendering of advice to Government on economic and financial matters, etc., are mainly discharged at the headquarters or the central office of the Bank located in Bombay. The central office now comprises as many as ten offices/departments.

These are: (1) the Secretary's Office, (2) the Chief Accountant's Office, (3) the Inspection Department, (4) the Legal Division, (5) the Agricultural Credit Department, (6) the Department of Banking Operations, (7) the Department of Banking Development, (8) the Industrial Finance Department, (9) the Exchange Control Department and (10) the Department of Research and Statistics (see organisational chart). This vast expansion in the Bank's organisation has increasingly brought to the fore, particularly at the central office of the Bank, the secondary or developmental functions of the Bank over and above the primary or traditional and purely regulatory tasks entrusted to it under the original statute.

### **Offices\* and Branches of the Bank**

The organisational set-up of the Banking and the Issue Departments which constitute its principal operational units, may be described first. As already stated, the Bank has local offices/branches at Bangalore, Bombay, Calcutta, Kanpur, Madras, Nagpur and New Delhi. Each office/branch of the Bank comprises the Banking and the Issue Departments. The Banking Department is under the charge of the Manager, and though the Issue Department functions directly under the Currency Officer, the entire office is under the general charge of the Manager. The branches of the Exchange Control Department, the Department of Banking Operations and the Agricultural Credit Department and the Research Section at Calcutta are also attached to the Banking Department. At the headquarters

---

\* There is a distinction between the terms 'office' and 'branch' of the Bank. Four centres, viz., Bombay, Calcutta, Madras and New Delhi, which are at the headquarters of the various areas specified in the First Schedule to the Reserve Bank of India Act and where local boards are established, are designated as offices, while the other centres are termed as branches.

in Bombay, these departments form part of the central office. At other centres, although these offices are in the charge of separate officers who receive instructions from the respective central office departments, they are under the administrative charge of the Manager.

The Bank opened an office in London in April 1936 for the maintenance of the account of the High Commission of India in London and the management of the Government of India rupee debt enfaced for payment in London.

### **Banking Department**

The Banking Department of the Bank is entrusted with transactions arising from the Bank's duties as banker to Government and to the banks. As already stated, the Bank has seven offices of the Banking Department and each office is under the charge of a Manager. In addition, an office has also been opened at Lucknow, mainly to attend to the work connected with the Compensation Bonds issued by the U.P. Government. The Banking Department is subdivided into four departments, *viz.*, the Public Accounts Department, the Public Debt Office (excepting Kanpur and Nagpur), the Deposit Accounts Department and the Securities Department (excepting at Kanpur and Nagpur). At the Bombay office, the work relating to licensing of imports of silver and sales of bullion on behalf of the Government are also attended to in the Banking Department.

### **Public Accounts**

The Public Accounts Department maintains and operates the deposit accounts of the Central Government, the State Governments and various Government departments, including, in particular, the railways. It receives and disburses moneys



on their behalf and carries out their exchange and remittance transactions.

### **Public Debt**

The management of the public debt of the Central Government is a statutory responsibility of the Reserve Bank. The public debt of the State Governments is also managed by the Bank by virtue of the agreements entered into with them. Policy matters connected with the terms and conditions of the new loans, the amount, the date and the method of issue, etc., and the co-ordination of loan floatations of the various Governments are attended to in the Secretary's Office. The work relating to centralisation and co-ordination of the public debt accounts of the Central and State Governments and making preliminary arrangements for the new loan floatations is handled by the Central Debt Section which functions under the charge of the Bank's Secretary. For purposes of efficient management, the actual transactions connected with the public debt have, except in the case of a few loans floated by the Governments of some of the former Part B States, been decentralised and vested in the regional Public Debt Offices at Bangalore, Bombay, Calcutta, Madras and New Delhi. A Public Debt Office was established in March 1954 at Lucknow, but this office attends to the management of U.P. Zamindari Abolition Compensation Bonds only. In November 1956, a Public Debt Office was also opened at Hyderabad, which manages the loans issued by the former Government of Hyderabad prior to April 1953 and pays interest on Central and State Government loans enfaced at Hyderabad. The law relating to Government securities is contained in the Public Debt Act of 1944 and the Public Debt Rules, 1946 and the procedure for dealing with the issue, conversion, renewal, interest payment, etc., of Government loans has been laid down in the Government Securities Manual issued under the authority of the Central Government.

The main functions of the Public Debt Office include the receipt of subscriptions in respect of Government loans and issue of scrips, payment of half-yearly interest on Government securities, enfacement of securities for payment of interest at treasuries, sub-treasuries, etc., renewal, conversion, consolidation and sub-division of different kinds of Government securities, repayment of maturing loans, investigation of disputed claims pertaining to securities and issue of duplicates of lost, stolen or destroyed scrips. This department also supervises the work of the treasuries under its jurisdiction in connection with Government loans and audits the interest payments made at the treasuries.

The two forms in which Government securities are at present issued by the Public Debt Office are stock certificates and promissory notes. Promissory notes of any loan can be converted into stock certificates of that loan or *vice versa*. Interest on stock certificates is paid by warrants issued by the Public Debt Office without presentation of the stock certificates by the holders. But, in the case of promissory notes, presentation of the notes themselves at the Public Debt Office is required for the issue of interest warrants.

Government securities can also be held in Subsidiary General Ledger Accounts at the Public Debt Office by large institutional investors like scheduled banks, State co-operative banks and insurance companies, subject to prescribed conditions. This special facility has been devised for the convenience of both the institutional holders and the Bank and operates more or less as a 'current account' in securities deposited with the Bank. It enables transfers of securities to be made from one Subsidiary General Ledger Account to another in the same Public Debt Office and between accounts maintained at any two offices by means of book entries, thus eliminating the

risk of loss in transit. Interest thereon is paid, as in the case of stock certificates, by warrants issued by the Public Debt Office. Besides, the Bank issues, on behalf of the Central Government, Ten-Year Treasury Savings Deposit Certificates and Fifteen-Year Annuity Certificates, as part of small savings.

The Public Debt Office has also been entrusted with the work in connection with the management of the bonds of the Industrial Finance Corporation of India, issued under Section 21 of the Industrial Finance Corporation Act, 1948. The procedure for dealing with the issue, transfer, renewal, payment of interest, etc., on the bonds is governed by the Industrial Finance Corporation (Issue of Bonds) Regulations, 1949.

### **Deposit Accounts**

The Deposit Accounts Department maintains the Bank's internal accounts, the statutory balances of scheduled banks and deposits of non-scheduled and co-operative banks. It also maintains current deposit accounts of certain public bodies like financial corporations, foreign central banks and international agencies. In terms of Section 17 (13) of the Reserve Bank of India Act, the Bank at present provides rupee current account facilities for a number of foreign central banks and two international financial organisations, *viz.*, the International Monetary Fund and the International Bank for Reconstruction and Development.

The department rediscounts eligible bills for and grants loans and advances to scheduled and State co-operative banks and the Industrial Finance Corporation of India and State Financial Corporations. Further, it remits funds, through issue of bank drafts and mail and telegraphic transfers, on behalf of the Central and State Govern-

ments, banks, indigenous bankers and the public under the Bank's Remittance Facilities Scheme. Sterling drafts and mail and telegraphic transfers payable on the Bank's London office are issued only to Government departments. This department also attends to purchases and sales of sterling and part of the work connected with Treasury bill tenders.

Financial accommodation to scheduled and State co-operative banks is granted by the Deposit Accounts Department, subject to the general instructions issued, respectively, by the central offices of the Department of Banking Operations and the Agricultural Credit Department at Bombay, from time to time.

In addition to these administrative functions the Deposit Accounts Department also supervises the working of the Clearing Houses at various centres. Prior to the establishment of the Reserve Bank, the members of the Clearing Houses at the more important centres in India like Bombay, Calcutta, Delhi and Madras settled their clearing differences through the accounts maintained by them with the local offices of the Imperial Bank of India for the purpose. The Clearing Houses at these centres were autonomous institutions and the Imperial Bank of India supervised the conduct of the clearing at these centres on behalf of the members. With the establishment of the Reserve Bank and the opening of statutory accounts by scheduled banks with the Bank in terms of Section 42 of the Act, it was arranged that the members of the Clearing Houses at the above mentioned centres should settle the clearing differences by means of cheques drawn on their accounts with the Reserve Bank. Although under Section 58(2) (p) of the Act, the Reserve Bank is empowered to frame rules for the regulation of Clearing Houses, the Bank has not

so far found it necessary to frame any rules, and Clearing Houses consequently continue to retain their previous autonomous character. The Bank has, however, agreed to supervise the conduct of clearing at most of the centres where it has offices or branches. At present, it is the conducting authority of the Clearing Houses at Bangalore, Bombay, Calcutta, Kanpur, Madras, Nagpur and New Delhi.

### **Securities**

The Securities Department deals mainly with the purchase, sale and safe custody of securities deposited with the Bank by Government officials in their official capacity as well as by local authorities. The securities received from Government officials relate to trust funds, estates of wards under the management of courts and contractors' deposits, and those received from local authorities constitute their own investments on account of provident fund collections and other funds like charity trusts. Sales and purchases of securities are effected through the brokers on the Bank's approved list. This department also accepts for safe custody securities held by the Bank on behalf of the Issue and the Banking Departments, securities lodged as statutory deposits by insurance companies and foreign banking companies operating in India and securities deposited by banks as cover for loans and for guarantees under the Bank's Guarantee Scheme and by financial corporations as cover for loans. Interest on such securities is collected as and when it becomes due and remitted to the holders concerned. Besides, it rediscounts Treasury bills and purchases and sells securities on behalf of the foreign central banks maintaining accounts with the Reserve Bank.

### **Issue Department**

As already stated, for the efficient management of the

business relating to note issue (*i.e.*, obtaining notes from the India Security Press at Nasik and distributing them to the treasuries and sub-treasuries and the Bank's agencies maintaining currency chests, removing from the latter old and unserviceable notes for destruction in due course after examination, etc.), the territory of the Indian Union has been divided into seven circles of issue. Each branch of the Issue Department is divided into two separate departments, namely, the General Department and the Cash Department. The General Department attends to resource operations *i.e.*, arranging for supplies of notes from the India Security Press, their despatch to the currency chests, maintenance of the assets of the Issue Department and the circulation accounts. The Cash Department handles the cash transactions and actual remittances between the Bank and the currency chests. The Cash Department functions under a Treasurer. At most of the offices where the Issue and the Banking Departments are housed in the same building, there is one common Treasurer for both the departments. The Cash Department, in addition to issue work, encashes cheques drawn on the Bank by Governments and banks and also receives deposits from them.

The General Department is subdivided into several sections. The Registration Branch, for instance, maintains registers of issues of high denominations notes and records cancellations in these registers. The Cancelled Note Verification Branch takes over paid and cancelled notes,\* subjects them to quantity and quality checks and issues warrants of verification. The Claims Branch deals with applications for payment of the value on lost, stolen, mutilated, altered and other imperfect notes in accordance

---

\**i.e.* Notes which are cancelled by the Cash Department, being old or soiled and, therefore, unfit for further circulation.

with the Bank's Note Refund Rules and also with cases arising from forged and unclaimed notes. The Resource Branch arranges for the supply of currency at the different centres through the mechanism of the currency chests and for the removal of currency in excess of normal requirements. It also maintains accounts of small coin depots.

### **Central Office Departments**

We may now turn to the organisational set-up of the central office at Bombay. As already stated, the central office comprises as many as ten offices/departments. The work entrusted to each of these units is briefly described below.

### **Secretary's Office**

The Secretary's Office is broadly concerned with diverse matters affecting the policy of the Bank. In particular, it attends to the work connected with the Bank's open market operations, general matters relating to the floatation of Central and State Government loans and Treasury bills, sanction of ways and means advances to the Central and State Governments, matters relating to investment of Governments' surplus funds, and the Bank's transactions with the International Monetary Fund and the International Bank for Reconstruction and Development. It also tenders advice to local bodies, municipal corporations, etc., in the matter of loans to be raised from the public. Its other functions relate to the secretarial work connected with the meetings of the Central Board and its Committee, and correspondence with the Central and State Governments on matters of policy affecting their balances and loan operations. The Central Debt Section, which is concerned with the floatation of Central and State Government loans, administration of public debt and general supervision of the work of the Bank's Public Debt Offices also functions under the Secretary.

### **Chief Accountant's Office**

The Chief Accountant's Office is mainly responsible for the correct maintenance and supervision of the Bank's accounts in its Issue and the Banking Departments and is also the principal administrative office of the Bank. It controls the expenditure incurred by the various offices and departments of the Bank. This office is also responsible for the recruitment of staff and fixing their terms of service and generally for all matters relating to staff welfare. Instructions on all these matters are issued from time to time to all offices and departments of the Bank.

Certain accounting functions of the Chief Accountant's Office are exercised by the Central Accounts Section, which is attached to the Banking Department of the Bank at Calcutta. The Central Accounts Section maintains the principal accounts of the Central and State Governments and the Railways, attends to the grant and recovery of ways and means advances to Governments and the investment of surplus funds and exercises administrative control over the conduct of the Remittance Facilities Scheme of the Bank.

### **Inspection Department**

The Inspection Department, which functions under the Bank's Inspector, carries out periodical internal inspection of the different offices and departments of the Bank and submits reports to the Chief Accountant's Office as regards the general conduct of work at these offices. In addition to the Inspection Department, there is a Central Audit Section which has been entrusted with the detailed audit of the Bank's accounts. These arrangements are intended to ensure that offices follow correct administrative procedures as laid down by the Central Office from time to time.



### **Legal Division**

With the growing responsibilities of the Bank in recent years it was found necessary to constitute a Legal Division in 1951 under the control of an Officer-in-Charge. The main function of the Legal Division is to advise the Bank's various departments on references involving legal issues, mainly pertaining to the interpretation and application of the Reserve Bank of India Act, the Banking Companies Act, the Foreign Exchange Regulation Act, the Public Debt Act and the State Bank of India Act and any other legislation relating to banks. The Legal Division has also been entrusted with the work of drafting, in the first instance, of legislation and statutory amendments in respect of matters with which the Bank is concerned, as also drafting of subordinate legislation such as rules, regulations, and statutory notifications and orders made under the above Acts.

### **Exchange Control Department**

The Exchange Control Department was constituted in September 1939 after the outbreak of World War II to deal with the work relating to the control of foreign transactions in exchange, bullion and securities, which were delegated to the Reserve Bank by the Central Government under the Defence of India Rules. The relevant provisions have since been placed on a statutory basis by the Foreign Exchange Regulation Act, 1947. The powers conferred by this Act on the Reserve Bank of India and the general administration of exchange control in India have been reviewed in chapter VIII. The Governor of the Bank is the Controller and is assisted by a Deputy Controller who is the officer-in-charge of the central office of this department situated in Bombay. The department has branch offices at Bombay, Calcutta, Kanpur, Madras and New Delhi.

**Department of Banking Development**

The Department of Banking Development was created in 1950, mainly with the object of giving concentrated attention to the extension of banking facilities to semi-urban areas and to problems of rural finance. The establishment of this department followed the recommendations of the Rural Banking Enquiry Committee ( 1950 ), which made certain suggestions for widening the field of operation of the Reserve Bank and of the Imperial Bank of India for mobilising rural savings and expanding credit facilities in rural areas. The department maintains a close and intimate touch with the State Bank of India and the State Bank of Hyderabad and attends to all matters arising out of the administration of the State Bank of India Act, 1955, and the State Bank of Hyderabad Act, 1956 which concern either the Government of India or the Reserve Bank. The department gives continuous attention to questions, such as, extension of remittance facilities at reduced rates, provision of better facilities for exchange of notes and coin, reform of treasuries and sub-treasuries and generally the removal of impediments in the way of extension of commercial banks particularly in the semi-urban and rural areas. It deals with all outstanding issues pertaining to the integration of banking and treasury arrangements in the former Part B States with those of the rest of the country and all matters relating to the future set-up of the major State-associated banks and the acquisition of the business of the minor State-associated banks by the State Bank of India on a voluntary basis in terms of the provisions of Section 35 of the State Bank of India Act. The department provides a liaison between the Reserve Bank and the small savings movement, and the Chief Officer of the department represents the Bank as a member of the Small Savings Board set up by the Government of India to co-ordinate and take decisions, on various matters relat-

ing to the Small Savings Schemes of the Government. Its activities also include the co-ordination of work in the Reserve Bank in regard to the role of commercial banks in relation to warehousing and provision of training facilities in practical banking for the personnel of commercial banks. The work of this department has been divided into three divisions, *viz.*, the Banking Extension Division, the Administrative and General Division and the Planning and Extension Division.

### **Industrial Finance Department**

Problems of industrial finance and provision of finance to medium and small-scale industries, which have been referred to in chapter VII, as well as inspection and supervision of the State Financial Corporations formed part of the sphere of work of the Department of Banking Development but in view of the vast increase in the volume of work of this department, a new department called the Industrial Finance Department was created in September 1957. This department has been entrusted with all matters pertaining to industrial finance, including the activities of the State Financial Corporations. The affairs of the Refinance Corporation for Industry Private Ltd., which has been established to provide financial assistance to medium-sized industries in the private sector through selected scheduled banks, is being looked after by this department.

### **Agricultural Credit Department**

The Agricultural Credit Department was created in April 1935 in accordance with the provisions of Section 54 of the Reserve Bank of India Act. Its original statutory functions, it would be recalled, were maintenance of expert staff for the study of the questions relating to agricultural credit and

co-ordination of the Bank's activities in the field of agricultural credit with those of State co-operative banks and other institutions also engaged in the supply of agricultural credit. The duties of the Agricultural Credit Department have expanded *pari passu* with the progressive expansion in the Bank's activities in the sphere of rural finance which has been outlined in detail in chapter VI. With the enactment of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, this department is also collaborating with the Central and State Governments in the establishment of a country-wide organisation of warehouses to facilitate the processing and marketing of agricultural produce. At present, the work of the department has been organised in four divisions, *viz.*, (i) Finance and Inspection (ii) Planning and Reorganisation (iii) Co-operative Training and Publications and (iv) Handloom Finance, each under a Deputy Chief Officer. Regional offices have also been set up at Bombay, Calcutta, Madras and New Delhi.

### **Department of Banking Operations**

The main function of the Department of Banking Operations is the supervision of the Indian banking system. Under the Banking Companies Act, 1949, and under the Reserve Bank of India Act, the Reserve Bank has been invested with very wide powers of supervision and control over all banks. Through this department, the Bank maintains a close watch over the affairs of commercial banks. Its duties include examination of applications from banks for licences to commence and continue banking business or to open new offices, disposal of applications for issue of capital by banks forwarded by the Government of India and periodical inspection of banks. This department also deals with applications for loans from banks and tenders advice on banking and financial matters to banks and Governments. The department has branch

offices at Calcutta, Kanpur, Madras, Nagpur, New Delhi and Trivandrum.

### **Department of Research and Statistics**

The chief function of the Department of Research and Statistics is, as explained in the preceding chapter, to assist the Bank in the formulation of its own policies as also in its function as adviser to Central and State Governments on economic and financial matters. For this purpose, the department keeps in close touch with the current economic and financial developments, both in India and abroad. The department is divided into five divisions, *viz.*, the Divisions of Monetary Research, International Finance, Banking Research, Rural Economics, and Statistics.

## XI

### WEEKLY STATEMENTS, BALANCE SHEET AND PUBLICATIONS

The Reserve Bank's activities as the bankers' bank, banker to Government and the country's exchange authority are reflected in the Bank's weekly statement of accounts and the annual balance sheet. In terms of Section 53 of the Act, the Bank is required to prepare in the form prescribed and transmit to the Central Government a weekly account of the Issue and the Banking Departments as at the close of Friday; this weekly statement or balance sheet is published after the weekly meeting of the Committee of the Central Board, which is generally held on the following Wednesday. The Bank's annual balance sheet is also published in the same form as the weekly statement, except for the addition of a statement of profit and loss account. The Bank's accounting year runs from July 1 to June 30.

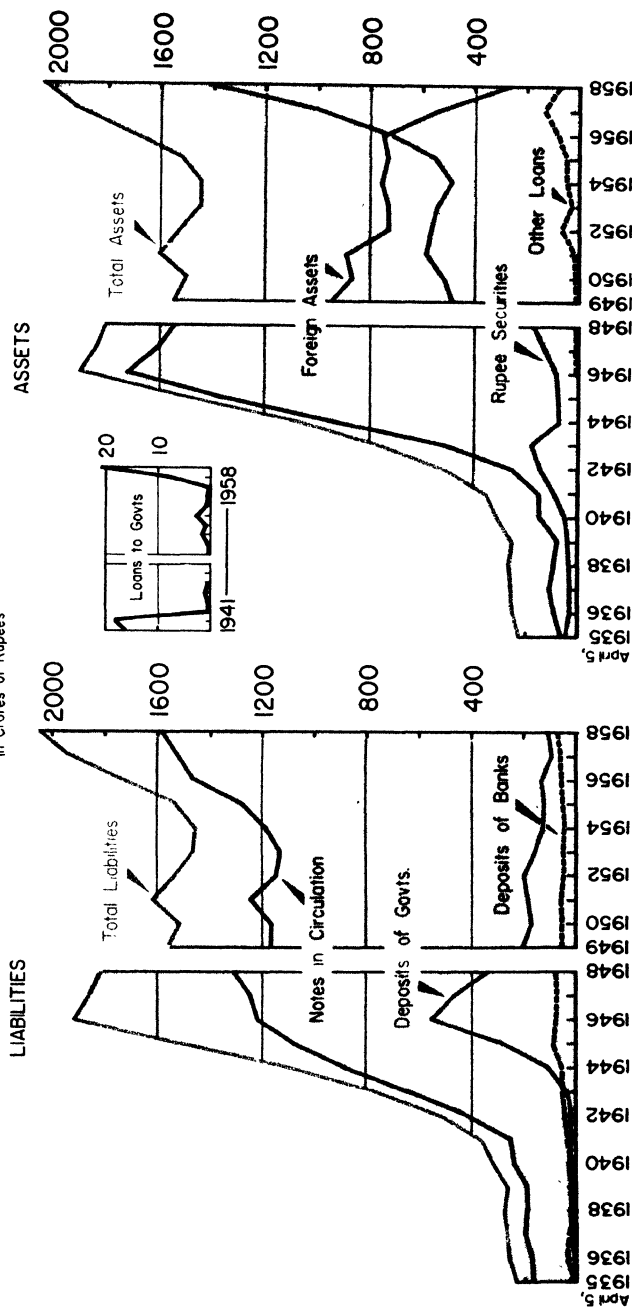
The weekly statements of the Bank together with the weekly statements relating to the consolidated position of scheduled banks, also issued by the Bank, broadly portray, in a summary form, the financial trends in the economy as reflected in movements in money supply, bank credit, budgetary operations of Government and the balance of payments. The *proforma* statements embodying figures as on three dates are on pages 144-145 and 152. The various items in the Reserve Bank's weekly statement are first explained below and this is followed by an explanation of variations in the figures. Likewise, the various items of the weekly statement of scheduled banks and the variations in the figures are explained.

# LIABILITIES AND ASSETS OF THE RESERVE BANK OF INDIA

## Issue and Banking Departments Combined

As on last Friday of March

In Crores of Rupees



Reserve Bank ceased to be the currency authority of Burma from June 1942, bankers to the Government of Burma from April 1947 and the central bank for Pakistan from July 1948





**Weekly Statement of the Reserve Bank***Issue Department—Liabilities*

Taking first the issue Department, it will be seen that the *liabilities* side is made up of two items *viz.*, (i) Notes held in the Banking Department and (ii) Notes in circulation. These two together constitute the *Total Notes Issued*.

So far as the Issue Department is concerned, what matters is the total notes issued, which is the liability of this department. *Notes held in the Banking Department* form part of cash of the Bank to meet the immediate currency requirements of the Banking Department. *Notes in circulation* comprise those held outside the Reserve Bank, that is, by the public, banks, treasuries, etc., within the country, as well as those held outside India, particularly in the Persian Gulf area, where in some of the *Sheikhdoms*, the Indian rupee circulates as legal tender currency.

*Issue Department—Assets*

The assets of the Issue Department consist of gold coin and bullion, foreign securities, rupee coin and rupee securities. Bills of exchange and promissory notes payable in India, which are eligible for purchase by the Bank can also form part of the assets. As already mentioned, under the present law, the minimum holdings of gold and foreign securities have been prescribed as the equivalent value of Rs. 200 crores, of which at least Rs. 115 crores should represent the value of gold. The entire *gold* holding of the Bank, consisting of bullion and sovereigns, is held at the offices of the Issue Department and at the India Government Mints on behalf of the Bank. *Foreign securities* represent securities payable in the currency of any foreign country which is a member of the I.M.F., and consist of (1) balances at the credit of the Issue Department with the

bank which is the principal currency authority of that foreign country, or, if there is no such bank, with any bank incorporated in that foreign country, (2) bills of exchange bearing two or more good signatures and drawn on and payable at any place in that foreign country and having a maturity of not exceeding ninety days, and (3) Government securities of that foreign country maturing within five years. Though the Bank is authorised to invest in the above mentioned securities, the foreign securities held in the Issue Department so far comprise exclusively the short-term securities of the U. K. Government.

*Rupee coin* held in the Issue Department comprises *whole* rupees held in the currency chests at the offices of the Bank and its agencies including treasury agencies. Since July 1940, rupee coin holdings include one rupee notes issued by the Government of India under the Currency Ordinance, 1940 (No. IV of 1940). In terms of Section 36 of the Reserve Bank of India Act, the amount of rupee coin held in the Issue Department is sought to be kept at Rs. 50 crores or one-sixth of the total assets, whichever is *greater*. Any excess or deficiency is corrected by delivering the excess to, or receiving the amount of deficiency from, the Central Government against payment of legal tender value (in the form of bank notes, gold or securities). Transfers in excess of Rs. 5 crores are to be effected with the consent of the party concerned. Excess of rupee coin held by the Bank is to be surrendered at the close of the financial year, while the deficiency could be made good at the close of any statement week. The Central Government undertakes not to issue or otherwise put into circulation rupee coin except through the Bank, while the Bank does not dispose of rupee coin except for circulation or for delivery to Government as provided above. As a result of the operation of this section and the return

of rupee coin from circulation, rupee coin held by the Bank in the Issue Department has been rising continuously, the figure as on April 4, 1958 being Rs. 127·6 crores.

*Rupee securities* include Treasury bills and other securities of any maturity issued by the Central Government in respect of public loans.

### *Banking Department—Liabilities*

In the Banking Department statement, on the liabilities side, the first two items are the *paid-up capital* and *reserve fund*. The capital of the Bank has remained unchanged at Rs. 5 crores since its inception, and since January 1, 1949 has been wholly owned by the Government of India. Until recently, the reserve fund was Rs. 5 crores, which was contributed by the Government in the form of Government securities in accordance with Section 46 of the Act, but following the revaluation of gold held in the Issue Department in October 1956, a sum of Rs. 75 crores was transferred to the reserve fund out of the profits of Rs. 77·7 crores realised on revaluation, with the concurrence of the Central Government, raising the reserve fund to Rs. 80 crores, effective June 30, 1957.

The next two items relate to the *National Agricultural Credit (Long Term Operations) Fund* and the *National Agricultural Credit (Stabilisation) Fund* which were established in 1956, under Section 46A and 46B of the Act and to which the Bank is required to make annual contributions. The balances in these funds stood at Rs. 25 crores and Rs. 3 crores, respectively, as at the end of June 1958.

Deposits with the Bank are classified under three groups, *viz.*, those of the Government, the banks and others. *Government deposits* which are held by the Bank in terms of Sections 20, 21 and 21A of the Act, are again sub-divided into *Central*

Government deposits and *other* Government deposits. The latter represent the deposit accounts of the State Governments. Central Government deposits reached their highest level of Rs. 533 crores in April 1946. Thereafter, they recorded a more or less continuous decline and latterly they are maintained around Rs. 50 crores. The variations in Government balances reflect not only transactions with the public but also those with the Reserve Bank itself and sometimes with foreign Governments and agencies.

*Deposits of banks* include the statutory balances maintained by the scheduled banks under Section 42(r) of the Act, the balances of such non-scheduled banks as have been permitted to open accounts with the Reserve Bank and of the State co-operative banks which maintain balances in terms of the agreements entered into by them for the purpose of availing themselves of financial accommodation from the Bank. It has been observed that banks generally maintain excess balances over and above the statutory minimum; fluctuations in such excess deposits of scheduled banks are an important pointer to the conditions prevailing in the money market. Broadly speaking, during the busy season (November-April) the excess balances tend to decline whereas in the slack season (May-October) they show an upward tendency. In recent years excess reserves of scheduled banks have tended to fall, while their borrowings from the Reserve Bank have recorded a rise.

*Other deposits* with the Bank include miscellaneous items such as (i) deposits of quasi-Government institutions like the Industrial Finance Corporation of India and the State Financial Corporations, (ii) provident, pension and guarantee funds of the Reserve Bank's staff, (iii) balances of foreign central banks and Governments and (iv) accounts of the Interna-

tional Monetary Fund and the International Bank for Reconstruction and Development. The Bank maintains, free of charge, two rupee current accounts for the International Monetary Fund and one account for the International Bank for Reconstruction and Development. The No. 1 Account of the Fund, to which is credited ten per cent of India's quota is intended for putting through the country's exchange transactions. Any receipt of rupees on behalf of the Fund are also credited to this account. A minimum balance of one per cent of India's quota has always to be maintained in this account. The Fund's No. 2 Account is the operating account for meeting the administrative expenses which the Bank may incur on behalf of the Fund and any drawings which the Fund may make for its own administrative and other requirements. This account is periodically credited by transfers of small amounts from No. 1 Account for meeting the Fund's operating expenses.

The remaining heads on the liabilities side of the Banking Department are bills payable and other liabilities. *Bills payable* comprise mainly outstanding Government and Bank drafts drawn by the offices of the Bank upon one another, by the agencies of the Bank on the offices of the Bank, and by the treasury offices upon one another and on the State Bank of India and other agent banks. *Other liabilities* include amounts held in suspense relating to items in transit between offices of the Bank as well as profits of the Bank accruing under various heads, such as, interest, discount, exchange, commission, etc., before transfer to Government at the end of the accounting year.

#### *Banking Department—Assets*

On the assets side, the first three items are notes, rupee coin and subsidiary coin, which together form the cash holdings

of the Banking Department. Notes shown here correspond to the item *Notes held in the Banking Department* on the liabilities side of the Issue Department, while *Bills purchased and discounted* represent Treasury bills and re-discounted commercial bills; this item is generally small, consisting mostly of Central Government Treasury bills.

*Balances held abroad* principally include cash (mostly balances with the Bank of England) and short-term securities held with the Bank of England; they also include working balances held by the Reserve Bank of India at the State Bank of Pakistan, the Federal Reserve Bank of New York as well as at the London office of the Bank.

*Loans and advances to Governments* refer to short-term accommodation provided in the shape of ways and means advances to Central and State Governments. Under this head are also included loans and advances granted to the State Governments from the National Agricultural Credit (Long Term Operations) Fund in terms of Section 46A of the Act and also temporary overdrafts given to the State Governments.

*Other loans and advances* consist of loans and advances made by the Reserve Bank under the several sub-sections of Section 17 of the Act which empower the Bank to extend financial accommodation to scheduled banks, State co-operative banks, the Industrial Finance Corporation of India and the State Financial Corporations. In the last 6-7 years, these advances have generally shown a steadily rising trend.

*Investments* consist of rupee securities of the Central and State Governments as well as other approved securities like shares of the State Bank of India, State co-operative banks and State Financial Corporations, and debentures of land mortgage banks. Under Section 17(8), the Bank

is authorised to purchase, sell and hold in the Banking Department securities of the Central and State Governments of any maturity and such securities of a local authority as may be specified in this behalf by the Central Government on the recommendation of the Central Board of the Bank. The Bank is also authorised to invest in the shares and the capital of the State Bank of India or any other bank or financial institution notified by the Central Government in this behalf and also to dispose of the same.

*Other assets* comprise mainly premises, furniture, fittings, stationery, debit balances under heads representing expenditure incurred by the Bank and items in course of collection, etc.

### **Explanation of Variations during a Week**

The preceding paragraphs have indicated the nature of the various items appearing in the Bank's weekly statement. A comparison of the Bank's statements for any two successive weeks as in the accompanying illustrative table would bring out how changes in liabilities are matched by those in assets as well as how adjustments take place consequent on transfer from particular accounts of the Issue to the Banking Department and *vice versa*. A comparison of the statements at the interval of a longer period such as a year would throw more light on the financial trends and general economic situation in the country.

It may be observed from the statement on pages 144 and 145 that during the week ended April 4, 1958—a period which covers the financial year-end transactions also—notes in circulation expanded by Rs. 40·6 crores; notes held in the Banking Department, on the other hand, declined by Rs. 2·3 crores thereby bringing about a *net* increase of Rs. 38 crores in the total liabilities of the Issue Department. This was

**RESERVE BANK**  
*An account pursuant to the Reserve Bank of India*  
*April 4, 1958*

LIABILITIES				<i>As on March 28, 1958</i>	<i>As on April 4, 1958</i>	<i>As on April 5, 1957</i>
				Rs.	Rs.	Rs.
ISSUE						
Notes held in the Banking Department				10,21,14	7,94,43	7,88,29
Notes in circulation .. .. .				1579,13,39	1619,68,82	1563,56,90
Total Notes issued .. .. .				<u>1589,34,53</u>	<u>1627,63,25</u>	<u>1571,45,19</u>
Total Liabilities.. .. .				<u>1589,34,53</u>	<u>1627,63,25</u>	<u>1571,45,19</u>
BANKING						
Capital Paid-up .. .. .				5,00,00	5,00,00	5,00,00
Reserve Fund .. .. .				80,00,00	80,00,00	5,00,00
National Agricultural Credit (Long Term Operations) Fund .. .. .				20,00,00	20,00,00	15,00,00
National Agricultural Credit (Stabi- lisation) Fund .. .. .				2,00,00	2,00,00	1,00,00
Deposits :—						
a) Government						
1. Central Government .. .. .				48,33,31	55,27,22	60,59,44
2. Other Governments .. .. .				54,85,01	7,23,89	7,90,31
b) Banks .. .. .				67,83,27	81,05,86	59,99,65
c) Others .. .. .				117,51,52	116,32,46	74,49,09
Bills Payable .. .. .				29,41,08	25,66,09	17,93,83
Other Liabilities .. .. .				41,04,73	40,37,06	116,36,49
Total Liabilities.. .. .				<u>465,98,92</u>	<u>432,92,58</u>	<u>363,28,81</u>



## OF INDIA

Act, 1934, for the weeks ended March 28, 1958,  
and April 5, 1967.

(000's omitted)

ASSETS	As on March 28, 1958	As on April 4, 1958	As on April 5, 1967
DEPARTMENT	Rs.	Rs.	Rs.
<b>A. Gold Coin and Bullion :—</b>			
a) Held in India .. ..	117,76,03	117,76,03	117,76,03
b) Held outside India .. ..	—	—	—
Foreign Securities .. ..	171,19,43	216,06,93	412,51,91
<b>Total of A .. ..</b>	<b>288,95,46</b>	<b>333,82,96</b>	<b>530,27,94</b>
<b>B. Rupee Coin .. ..</b>	<b>129,28,66</b>	<b>127,57,38</b>	<b>126,20,06</b>
Government of India Rupee Securities .. ..	1171,10,41	1166,22,91	914,97,19
Internal Bills of Exchange and other Commercial Paper .. ..	—	—	—
<b>Total Assets .. ..</b>	<b>1589,34,53</b>	<b>1627,63,25</b>	<b>1571,45,19</b>

## DEPARTMENT

Notes .. ..	10,21,14	7,94,43	7,88,29
Rupee Coin .. ..	10,68	3,98	4,47
Subsidiary Coin .. ..	2,76	2,73	5,69
<b>Bills Purchased and Discounted</b>			
a) Internal .. ..	—	—	—
b) External .. ..	—	—	—
c) Government Treasury Bills ..	7,67,89	12,71,74	15,23,63
Balances held Abroad* .. ..	95,81,03	68,34,29	112,82,31
Loans and Advances to Governments	21,23,24†	37,63,08†	15,65,46
Other Loans and Advances .. ..	78,40,12	73,92,35	106,04,34
Investments .. ..	238,44,47	218,11,09	91,97,49
Other Assets .. ..	14,07,59	14,18,89	13,57,13
<b>Total Assets .. ..</b>	<b>465,98,92</b>	<b>432,92,58</b>	<b>363,28,81</b>

\* Includes cash and short-term securities.

† Includes temporary overdrafts to State Governments.

matched on the assets side by a net increase of Rs. 38 crores comprising a *rise* of Rs. 45 crores in foreign securities and *declines* of Rs. 5 crores and Rs. 2 crores in rupee securities and rupee coin, respectively. During the week, Rs. 39 crores worth of *ad hoc* Treasury bills (shown under rupee securities) matured. Of these, Rs. 15 crores were offset by fresh creation of *ad hocs* and the balance of Rs. 24 crores which represented *net* cancellations, were substituted by transfers from the Banking Department of Rs. 20 crores of foreign securities and Rs. 4 crores of rupee securities. In addition, the expansion of notes in circulation was covered by transfer from the Banking Department to the Issue Department of Rs. 25 crores of foreign securities and Rs. 15 crores of rupee securities. The expansion in notes in circulation occurred as a result of large-scale disbursements by State Governments which were met by drawing down their cash balances with the Reserve Bank and by ways and means advances from the Bank. State Government deposits with the Bank declined by Rs. 48 crores, which, however, concealed a credit of Rs. 16 crores given through ways and means advances; and if account is taken of this factor the total fall in State Government balances works out to Rs. 64 crores. Balances of the Central Government rose by Rs. 7 crores after debiting this account to the extent of Rs. 24 crores for *net* cancellations of *ad hoc* Treasury bills. Balances held abroad registered a fall of Rs. 27 crores even after credit being given for an amount of Rs. 22 crores representing the amount of sterling transferred at the instance of the High Commissioner for India in London. Incidentally, it may be pointed out that this transfer of funds was largely responsible for the rise in Central Government deposits with the Bank. However, as mentioned earlier, the bulk of the fall in balances held abroad was accounted for by transfers from the Banking Department to the Issue Department. The combined effect of these transactions on the foreign assets was small—a fall of Rs. 4 crores only.

Two other changes noticed in the Banking Department during the week were a rise of Rs. 13 crores in deposits of banks and a fall of Rs. 4 crores in other loans and advances which mainly represent credit outstanding to scheduled and State co-operative banks.

It has already been mentioned that the distinction between the Issue and the Banking Departments is not of fundamental importance. We have noted that there are frequent shifts between the assets of the Issue and the Banking Departments. Hence, it is always desirable that the changes in the *combined* liabilities and assets of the two departments, *i.e.*, for the Bank as a whole, are studied for discerning the broad monetary and financial trends over a period. This would rightly ignore shifts in assets from one department to another. This specially applies to the Bank's holding of rupee securities and foreign assets.

### **Analysis of Variations over a Year**

The observation that the Reserve Bank's weekly statements reflect broadly the financial trends in the economy will be clear if comparison is made over a longer period than a week, say a year. Taking the year to April 4, 1958, the main changes in the Bank's liabilities and assets were as follows: Notes in circulation went up by Rs. 56 crores. Deposits of the Central Government recorded a small decline of Rs. 5 crores and those of the State Governments of Rs. 0·7 crore. Such apparently small variations concealed large transactions which these Governments had with the Reserve Bank during the year, as revealed by the significant increases in the Bank's rupee investments and loans and advances to State Governments. During the year, the Bank's rupee investments rose by Rs. 377 crores, Rs. 251 crores in the Issue Department and Rs. 126 crores in the Banking Department. This is the *net* position after an

addition of Rs. 441 crores of *ad hoc* Treasury bills (against which equivalent credit was given to the Central Government, mainly for financing the increased developmental expenditures of the Second Plan) and the open market *sales* of Rs. 67 crores of rupee securities by the Bank.

Indicative of the substantial balance of payments deficit which was a characteristic feature of the period under review, foreign assets held by the Reserve Bank dropped by Rs. 241 crores. *Foreign securities* in the Issue Department fell by Rs. 196 crores and *balances held abroad* in the Banking Department by Rs. 45 crores, even after taking into account *net* borrowings from the International Monetary Fund of Rs. 34·5 crores and a receipt of Rs. 22 crores under advance receipt of the excess of the Pension Annuity Fund from the U.K.; the former transaction, which gave rise to a corresponding liability on the part of the Bank was reflected in the increase in other deposits with the Bank (Rs. 41·8 crores); the latter transaction gave rise to a corresponding increase in Central Government deposits with the Reserve Bank. *Other liabilities* dropped by Rs. 76 crores on account of the transfer of the profit of Rs. 77·7 crores realised on revaluation, in terms of the Reserve Bank of India (Amendment) Act, 1956, of the gold held in the Issue Department (which showed a corresponding rise) to the reserve fund account (Rs. 75 crores) and to the Central Government (Rs. 2·7 crores) at the end of the accounting year. Thus, the expansion in notes in circulation referred to above, was occasioned largely by the substantial budgetary deficit offset by the heavy balance of payments deficit incurred during the period.

### **Weekly Statement of the Consolidated Position of Scheduled Banks**

In terms of Section 43 of the Reserve Bank of India Act, the Bank also compiles and publishes each week a statement showing the *principal items* of the consolidated position of the busi-

*ness in India* of scheduled banks. This statement is based on the data supplied by scheduled banks under Section 42(2) as at the close of business on Friday (or the previous working day if Friday is a holiday), and is issued to the Press usually on the following Friday. It throws light on the broad changes in the main assets and liabilities of scheduled banks during the week. In compiling the weekly *press communiques*, provisional figures are used in respect of such banks as have not been able to submit final returns, but final figures subsequently received are incorporated in the data as published in the Bank's Bulletin and the Report on Currency and Finance. Fuller data relating to the entire structure of assets and liabilities in India of all commercial banks, i.e., Indian scheduled banks, foreign banks and reporting non-scheduled banks are also published by the Reserve Bank on a monthly basis. These data are based on returns which banks are required to submit in the prescribed form\* to the Bank in terms of Section 27(r) of the Banking Companies Act, 1949. Statistics relating to the assets and liabilities in foreign countries of Indian banks are published, on an annual basis, in periodical articles appearing in the Bank's Bulletin. The various items appearing in the weekly *press communiques* are explained below.

*Demand liabilities* include all liabilities which are payable on demand, e.g., demand deposits, outstanding telegraphic and mail transfers, demand drafts, savings deposits payable on demand, overdue fixed deposits, bills payable, unpaid dividend warrants, and demand borrowings from banks (other than the Reserve Bank, the State Bank of India and any other bank notified in this behalf).

*Time liabilities* include fixed deposits, time borrowings from banks (other than the Reserve Bank, the State Bank

---

\* The prescribed form is Form XIII appended to the Rules made under the Banking Companies Act, 1949.

of India and a notified bank) and other outside liabilities not payable on demand. Items, such as, paid-up capital, reserve fund, credit balance in the profit and loss account, etc., which are not in the nature of outside liabilities are not included either in demand or time liabilities.

*Borrowings from banks* (other than the State Bank, etc.) are being shown separately from June 1948.

*Borrowings from the State Bank and/or a notified bank* represent credit extended by them to scheduled banks.

*Borrowings from the Reserve Bank* relate to advances granted by the Bank under Section 17(4)(a) and Section 17(4)(c); those under Section 17(4)(c), representing advances under the Bill Market Scheme, are shown separately in brackets. Data relating to borrowings from the Reserve Bank are not called for under Section 42(2), but are compiled from the records of the Reserve Bank.

*Cash* comprises current notes and coin maintained as till money. Currencies of foreign countries are not included.

*Balances with the Reserve Bank* are those maintained by the scheduled banks in terms of Section 42(1) of the Reserve Bank of India Act. Cash deposits with the Reserve Bank by banks incorporated outside India in terms of Section 11(2) of the Banking Companies Act, 1949 are not included in this item.

*Balances with other banks in current account* represent demand deposits held with other banks; figures for this item are available from November 1951.

*Money at call and short notice* comprises funds made available principally to other banks at their solicitation and repayable at

call or short notice (of a fortnight or less) at the option of the lending banks. These data, which were formerly included under advances, are available separately from November 1951.

*Investments in Government securities* represent the *book* value of Central and State Government securities including Treasury bills, Treasury Deposit Receipts, National Savings Certificates and Treasury Savings Deposit Certificates. Securities of Central and State Governments (including Treasury bills) deposited with the Reserve Bank under Section 11(2) of the Banking Companies Act, 1949 are also included under this item. Data under this head are being called for from November 1951.

*Advances* include loans, overdrafts, cash credits, money lent to other banks at their solicitation and repayable after a fortnight, etc.

*Inland bills purchased and discounted* cover bills drawn and payable in India, including demand drafts purchased. Inland bills purchased were shown under advances upto November 1951.

*Foreign bills purchased and discounted* include all foreign import and export bills. Prior to May 1954, import bills purchased and discounted in India were shown under advances while figures in respect of export bills purchased and discounted were called for only from that month.

The term 'bank credit' used in Reserve Bank publications represents the total of advances and inland and foreign bills purchased and discounted.

### **Explanation of Weekly and Annual Variations**

The weekly and annual variations in the figures appearing

**STATEMENT OF THE POSITION OF SCHEDULED BANKS AS AT THE CLOSE OF  
BUSINESS ON FRIDAY THE 4TH APRIL 1958, WITH COMPARATIVE STATE-  
MENT OF THE POSITION ON FRIDAY OF THE PRECEDING WEEK AND  
THE CORRESPONDING FRIDAY OF THE PREVIOUS YEAR.**

	4-4-1958*	28-3-1958*	(000's omitted) 5-4-1957
	Rs.	Rs.	Rs.
<b>1. Demand liabilities in India</b>			
(i) Borrowings from banks other than the State Bank and a notified bank (A) .. ..	15,95,13	15,26,18	7,89,46
(ii) Other demand liabilities ..	751,53,58	729,99,00	718,14,53
<b>2. Time liabilities in India</b>			
(i) Borrowings from banks other than the State Bank and a notified bank (A) .. ..	15,02,00	14,85,50	2,09,00
(ii) Other time liabilities ..	728,08,78	719,64,22	478,54,44
<b>3. Borrowings in India from the State Bank and/or a notified bank</b>			
(i) Demand liabilities .. ..	10,36,32	10,77,54	10,76,55
(ii) Time liabilities .. ..	95,00	90,00	—
<b>4. Borrowings in India from the Reserve Bank of India (B) ..</b>	37,94,17 (24,19,00)	42,00,26 (26,58,16)	81,96,37 (58,32,30)
<b>5. Cash in India .. ..</b>	41,74,12	37,20,92	42,18,45
<b>6. Balances with the Reserve Bank in India .. ..</b>	83,07,76	67,78,10	61,27,69
<b>7. Balances with other banks in current account in India .. ..</b>	12,27,51	11,16,70	11,15,28
<b>8. Money at call and short notice in India .. ..</b>	43,28,98	41,68,26	12,60,17
<b>9. Investments (at book value) in India in Central and State Government securities including Treasury bills and Treasury deposit receipts .. ..</b>	440,55,90	440,35,92	347,23,82
<b>10. Advances in India .. ..</b>	808,49,04	805,88,93	716,52,45
<b>11. Inland bills purchased and discounted in India .. ..</b>	120,63,22	116,59,60	124,38,65
<b>12. Foreign bills purchased and discounted in India .. ..</b>	40,29,16	39,84,40	58,70,62

\* Provisional figures incorporated in respect of such banks as have not been able to submit final returns.

Notes: A — Excluding borrowings from the Reserve Bank also.

B — The figures in brackets represent borrowings from the Reserve Bank against usance bills and/or promissory notes.



in these statements may now be explained briefly to bring out how the changes in liabilities are roughly matched by the changes in assets of scheduled banks. During the week ended April 4, 1958 *net* demand liabilities (i.e. other than borrowings from banks) went up sharply by Rs. 22 crores. *Net* time liabilities also rose by about Rs. 8 crores; total *net* liabilities thus increased by Rs. 30 crores. Credit extensions during the week expanded by only Rs. 7 crores, so that banks utilised their surplus resources to augment their cash reserves by Rs. 20 crores and to reduce their borrowings from the Reserve Bank by Rs. 4 crores, Rs. 2 crores being under the Bill Market Scheme. During the week, banks also increased their investment portfolio by a small amount.

Over the year ended April 4, 1958, *net* deposit liabilities increased sharply by Rs. 283 crores, by far the greater portion (Rs. 250 crores) being in the form of time liabilities. The rise in deposit liabilities during the year was more than twice the increase in the previous year (Rs. 136 crores). It should, however, be pointed out that a part of the sharp addition to time liabilities during the year was accounted for by counterpart funds in respect of imports of commodities from the United States under P. L. 480. Over the year, credit outstandings increased modestly by only Rs. 70 crores, with the result that banks were able to augment their Government security portfolio by Rs. 93 crores, liquidate their earlier borrowings from the Reserve Bank by Rs. 44 crores (of which Rs. 34 crores was under the Bill Market Scheme) and build up their cash reserves by Rs. 21 crores. Other variations during the year were a sizeable rise of Rs. 31 crores in money at call and short-notice on the assets side and an increase of Rs. 21 crores in inter-bank borrowings on the liabilities side. Reflecting the comparatively comfortable position of scheduled banks the advances-deposits ratio

moved down over the year from 75·2 per cent to 65·5 per cent. Cash ratio, however, came down from 8·7 per cent to 8·4 per cent, while investments-deposits ratio rose from 29·0 per cent to 29·8 per cent.

### **Income and Expenditure of the Reserve Bank**

A brief reference may also be made here to the trend of earnings and profits of the Reserve Bank. The Bank's income is derived from *interest* on rupee and sterling securities, advances made to banks, etc., discount earned on sterling and rupee Treasury bills and internal bills, receipts under the head *exchange* due to sales of sterling to banks and transfers of sterling on Government account and issue of drafts, telegraphic transfers, etc., under the Remittance Facilities Scheme, and *commission* earned on account of the management of the public debt of the Central and State Governments, purchases and sales of securities on account of Governments and others. Since the war, the Bank's income has risen from Rs. 3·82 crores in the accounting year 1940-41 to Rs. 36·21 crores in 1956-57, after making statutory and other appropriations. Over the same period, the Bank's expenditure, which includes the expenses of administration and provision for sundry liabilities and contingencies, has risen from Rs. 1·03 crores to Rs. 6·20 crores. Prior to nationalisation, a dividend of 3½ per cent per annum (4 per cent since 1942-43) was being paid to shareholders from out of the *net profits* and the balance was transferred to the Central Government in terms of Section 47 of the Act, but since nationalisation, the whole of the net profits is being transferred to Government. The amount of net profits transferred to Government has risen from Rs. 2·62 crores in 1940-41 to Rs. 30·0 crores in 1956-57.

### **Bank's Publications**

The Bank issues several periodical publications which

contain detailed statistical information and a comprehensive account of the Bank's operations and trends and developments in the banking and financial spheres. These publications attempt to explain and assess the significance of the economic and financial developments in the country and also on the working of the Bank, and provide a wealth of factual data for the use of the public. The Bank's regular publications comprise (1) the Reserve Bank of India Bulletin, which is issued every month, and its Weekly Statistical Supplement, (2) the several annual reports issued by the Bank, such as, the Report of the Central Board of Directors, Report on Currency and Finance, Trend and Progress of Banking in India and Review of the Co-operative Movement in India and (3) the various statistical compilations, such as, the Statistical Tables relating to Banks in India and the Statistical Statements relating to the Co-operative Movement in India. Special publications have also been issued by the Bank from time to time. These include (1) reports of *ad hoc* expert committees constituted under the auspices of the Bank, to deal with special problems, such as, the Committee of Direction of the All-India Rural Credit Survey, and the Committee on Finance for the Private Sector (2) several monographs containing the Bank's investigations into problems pertaining to rural credit, co-operation and balance of payments and (3) the compilation of the volume of Banking and Monetary Statistics of India. A brief summary of the subject matter covered in the more important publications is given below.

The *Reserve Bank of India Bulletin* presents, in a summary form, statistical and other information with a view to portraying the pattern of current economic trends in the country. It also includes the results of the various studies and investigations made by the Bank and, in particular, by the Depart-

ment of Research and Statistics. Its contents cover a monthly review of economic and financial conditions, articles on current economic problems, notes on current developments both in India and abroad, and legislation relating to finance and banking. The Bulletin has a statistical section which presents current monetary and economic statistics. Some of these statistics, which are available on a weekly basis, are also published in a Weekly Statistical Supplement to the Bulletin.

The *Report of the Central Board of Directors* is primarily a review of the Bank's operations and policies during the year ending June and is submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act. It also discusses briefly the general economic and financial conditions in the country.

The *Report on Currency and Finance* is a continuation in a somewhat extended form of the currency reports published by the Comptroller of Currency prior to the establishment of the Reserve Bank. This report gives a comprehensive review, supplemented by a wealth of statistical information, of the Indian economy during the financial year ending March, to which it relates, against the background of economic developments abroad, with special reference to trends in the sphere of production, prices, money supply, banking, capital and bullion markets, public finance and balance of payments.

The report on the *Trend and Progress of Banking in India*, which is issued in terms of Section 36 (2) of the Banking Companies Act, reviews the progress of banking and major developments in the field of banking policy during the calendar year and contains suggestions for the strengthening of the banking system in the country.

The *Review of the Co-operative Movement in India*, published once in two years, presents a detailed account of the pro-

gress and problems of the co-operative movement in India and contains separate chapters on the structure of co-operative credit, short-term as well as long-term, co-operative marketing, consumers' co-operatives, co-operative housing and other aspects of co-operative activity.

The *Statistical Tables relating to Banks in India* contains comprehensive data on the working of the Indian and foreign banks operating in India. A prefatory note to the publication explains in brief the statistical tables that follow. The tables are grouped into two classes, *viz.*, summary and general, the former showing mainly the consolidated position of the balance sheets of various classes of banks and the latter giving particulars of the balance sheets of individual banks. This publication also includes appendices showing the names of banks operating in the towns of the Indian Union as well as the location abroad of the branches of Indian banks.

The *Statistical Tables relating to the Co-operative Movement in India* starts with an introduction reviewing briefly the developments in the co-operative movement during the year to which it refers. The statistical statements are divided into three parts. The general statements give detailed statistics for different types of co-operative institutions in all the constituent States of the Indian Union. The abstract tables bring together in a summary form important data contained in the general statements. The appendices give comparative figures over a period of years.

The *Banking and Monetary Statistics of India*, published in 1954, embodies an attempt to bring together in one volume all the important banking, monetary and financial statistics relating to India from the earliest available period upto 1952. The volume comprises twelve sections giving detailed statistics in respect of the Reserve Bank, commercial banks, co-operative

societies, cheque clearings, money rates and security markets, small savings, public finance and public debt, currency and coinage, remittances, imports and exports of gold and silver and insurance companies. The introductory notes explain the scope and limitations of the data and also present the historical background.

## XII

### CONCLUSION

It is almost a quarter of a century since the Reserve Bank was established. For a central bank this is by no means a long period. For the Reserve Bank these years have been eventful. During the first four years after its establishment, the Bank was mainly pre-occupied with problems of organisation and the consolidation of its functions as a note-issuing authority and as banker to Governments. In the succeeding seven years, the impact of a global war and the limitations of a constitution which detracted from full financial freedom for the country greatly affected the normal evolution of the Bank. The crop of problems of war finance, successful floatation of a number of Government loans, repayment of the sterling debt, and the planning and administration of exchange control—all these engaged so much of the Bank's attention that in the words of a former Governor of the Bank "little scope was left for perfecting the machinery for the discharge of the more normal functions of a central bank."\*

The process of reconversion to a peacetime economy involved the financing of development expenditures of States out of their accumulated reserves through sale of Government securities. The partition of the country barely two years after the end of hostilities brought in its wake fresh problems, such as, the rehabilitation of displaced persons and a

\* From the speech of Shri C. D. Deshmukh at the Fourteenth Annual General Meeting of the shareholders of Reserve Bank in August 1948.

serious crisis in banking in certain parts of the country which were badly affected by the disturbances that accompanied partition. It was not until a year later that the Bank may be said to have resumed the work of building up a sound and adequate banking and credit structure, which it had initiated immediately after its establishment but which was interrupted by the outbreak of the war. In the course of years, the Bank has evolved a system of supervision and control of the commercial banking sector and has also taken important steps for extension of the banking habit and development of the banking structure. Its contribution to the growth of institutional credit for rural areas has been significant. The Bank's role in the field of industrial finance has also been increasing steadily.

These activities of the Bank have contributed to the laying of strong foundations for a suitable banking edifice for the country. The strength of these foundations will be tested in the years to come, during which the Bank would have to play an important role in the country's economic growth. The Bank's part would have to be both promotional and regulatory, the latter in the context of the significant magnitude of deficit financing that appears probable. The Reserve Bank is favourably placed for effective credit regulation as it has at its command a range of instruments—qualitative and quantitative credit controls—as well as the extensive powers of direct supervision and control over the banking system. The Bank has thus endeavoured to play its role in the task of achieving greater stability during an era of relatively rapid economic development. The expansion of the monetised sector of the economy and the steady growth of banking habit, while they offer greater scope for the operation of monetary policy, also pose bigger problems by extending the horizons of monetary control. Withal,



the task of the banking system in mobilising rural savings and meeting the investment needs of the rural and small-scale industrial sectors becomes of greater importance. An outstanding task for the Reserve Bank in the coming years remains to promote the building up of a banking structure, adequate in scope and range, at the same time as it is improved and strengthened in quality, with diversified enough forms of financing institutions to meet the various kinds of credit needs and much more widely extended than it is today in geographical coverage to the rural hinterland of the country.



## INDEX

## PAGES

## Advances

against documents of title to goods	.. ..	31, 78
against eligible security	.. ..	29-32, 34, 78
against Government securities	.. ..	32, 35, 78, 95, 96
against promissory notes	.. ..	31, 32, 34
against usance bills	.. ..	31, 34, 35
for seasonal agricultural operations and		
marketing of crops	.. ..	78, 81, 82
to co-operative banks	.. ..	77-87, 90-93
to finance corporations	.. ..	94-97
to Governments (see ways and means advances)		
to scheduled banks	.. ..	31-36, 150
Agents of the Reserve Bank	.. ..	6, 14, 15, 64, 65
Agreement with		
Central Government	.. ..	59, 60, 68
State Governments	.. ..	59-63, 65, 68
Agricultural credit, provision of		
long-term	.. ..	79, 83-85, 92, 93
medium-term	.. ..	79-84, 90-93
short-term	.. ..	75, 76, 78-83, 90-93
Agricultural Credit Department	6, 71, 72, 88, 116, 133, 134	
All-India Rural Credit Survey Committee	73, 74, 76, 77, 83, 86	
Amalgamation of banks	.. ..	55
Assets of the		
Banking Department	.. ..	141-143
Issue Department	.. ..	11, 15, 137-139
scheduled banks	.. ..	149-151, 153, 154
Authorised dealers in foreign exchange	105-107, 110, 111, 114	

Balance sheet of Reserve Bank (see also weekly statements) 136

Bank rate .. .. 27, 28, 33, 34, 37-39, 81

Bank reserves (see cash reserves)

Bankers Training College .. .. 57

Banking and Monetary Statistics of India .. .. 157-8

Banking Companies (Amendment) Act, 1953 .. .. 56

1956 .. .. 50, 54

Banking Department 6, 11, 12, 14, 17-19, 57, 58, 122-7, 139-43

## Banks

    amalgamations .. .. 55

    balances with Reserve Bank 41, 42, 51, 128, 140, 150

    borrowings from Reserve Bank 22, 31-36, 38, 150, 153

    branches .. .. 49, 50, 52, 53, 58

    capital and reserves .. .. 51, 52, 56, 57

    cash .. .. 21, 150, 153, 154

    deposits .. .. 20-22, 26, 33, 41, 149, 150, 153

## Banks

foreign	..	..	..	..	23, 26, 49, 149
inspections	..	..	..	..	25, 49, 50, 53-55, 134
investments	..	..	..	33, 38-40, 43, 151, 153, 154	
licensing	..	..	..	..	49, 50, 53, 54, 57
liquidation	..	..	..	..	.. 54, 56
liquidity	..	..	..	..	23, 38, 51, 52
loans and advances	..	..	..	..	20, 21, 34, 43, 45, 46
					101, 102, 151, 153, 154
non-scheduled	..	..	..	..	25, 27, 32, 46, 50, 149
participation in industrial finance	..	..	..	..	100-104
scheduled	25, 26, 34, 37, 46, 50, 62, 77, 78, 102, 103,				148-154
schemes of arrangement	..	..	..	..	53, 55, 56
supervision and control of	..	..	..	..	49-58, 134
Bill market	..	..	..	..	23, 24, 31
Bill Market Scheme	..	..	..	32-35, 79, 102, 150, 153	
Bills of exchange					
agricultural	..	..	..	..	30, 78
commercial	..	..	..	..	23, 34, 78, 142
indigenous ( <i>hundi</i> )	..	..	..	..	23, 34
purchase, sale and rediscount of	..	..	..	..	12, 29, 30, 97
Treasury (see Treasury Bills)					
usage	..	..	..	..	23, 31, 34, 35, 38
Board of Directors					
Central	..	..	..	..	3, 4, 5
Local	..	..	..	..	4, 5
Borrowings from Reserve Bank (see financial accommodation)					
Branch banking	..	..	..	..	52, 53, 58
Branches/offices of Reserve Bank	..	..	..	..	6, 7, 14, 64, 67, 120-122
Call money market	..	..	..	..	22, 38
Cash reserves of banks	..	..	..	..	21, 41, 42, 51, 150, 153
Central Board of Directors	..	..	..	..	3, 4, 5
Central Committee for Co-operative Training	..	..	..	..	88
Central Debt Section	..	..	..	..	123, 129
Central Government					
advances to	..	..	..	..	11, 37, 68, 142
agreement with Reserve Bank	..	..	..	..	59, 60, 68
deposits of	..	..	..	..	68, 69, 122, 140, 146-8
loans	..	..	..	..	66
Treasury bills	..	..	..	..	66, 67, 69, 148
Central land mortgage banks, financial assistance to	83, 84, 90-93				
Central Office	..	..	..	..	120, 121, 129-35
Chief Accountant's Office	..	..	..	..	6, 121, 130
Circles of issue (of notes)	..	..	..	..	128

Clearing Houses .. .. .	126, 127
Committee on Finance for the Private Sector ..	102, 155
Consolidated position of scheduled banks	
description of items .. .. .	149-151
explanation of variations .. .. .	151, 153, 154
illustrative statement .. .. .	152
Co-operative banks	
central banks .. .. .	75, 79-82, 86
concessional rates granted to .. .. .	80-82, 90-93
inspection of .. .. .	77, 85
primary credit societies .. .. .	75, 81, 86, 87
State .. .. .	29, 31, 71, 75, 77-87, 90-93, 133, 134, 142
Co-operative movement, scheme for re- organisation of .. .. .	73, 75, 76, 86, 87
Co-operative societies, classification of .. .. .	79, 80
Co-operative Training College, Poona .. .. .	88
Cottage and small-scale industries, short-term finance to	76, 78, 79
Credit control	
general (quantitative) .. .. .	27, 28, 43-46
instruments of .. .. .	27, 28, 43-46, 160
selective and direct (qualitative) .. .. .	43-46
Credit policy (see monetary and credit policies)	
Currency	
chests .. .. .	14-16, 60, 128
contraction and expansion .. .. .	16-19
issue of .. .. .	10-14
regulation of .. .. .	10-14
reserve requirements .. .. .	12, 13
Debentures of land mortgage banks, Reserve Bank's contribution to .. .. .	83, 84, 90-93
Department	
of Banking Development .. .. .	6, 57, 116, 121, 132, 133
of Banking Operations .. .. .	6, 116, 121, 134
of Research and Statistics .. .. .	6, 116-119, 121, 135, 156
Deposits of banks (see banks)	
Deposits with Reserve Bank	
of banks .. .. .	41, 42, 51, 128, 140, 150
of Governments .. .. .	68, 69, 122, 128, 139, 140, 146-148
other .. .. .	125, 140, 141, 148
Deputy Governors .. .. .	4, 5, 104
Directives to banks .. .. .	44-46
Discount market (see bill market)	
Discount rate (see bank rate)	
Exchange Control Department .. .. .	6, 7, 113, 116, 118, 121, 131

Financial accommodation				
to financial corporations ..	94-97, 125, 126, 142			
to scheduled banks ..	28-36, 125, 126, 142			
to State co-operative banks ...	37, 73, 77-87, 90-93			
Foreign banks .. ..	23, 26			
Foreign Exchange Regulation Act, 1947 ..	106, 109, 110, 131			
Foreign exchange reserves 12-14, 105, 107, 108, 137, 138, 142,	146-148			
Foreign trade, financing of .. ..	26, 105, 107-109, 113			
General credit control .. ..	27, 28, 43-47			
Gold coin and bullion .. ..	12-14, 108, 112, 113, 137			
Gold, revaluation of .. ..	13, 139, 148			
Government				
deposits ..	68, 69, 122, 128, 139, 140, 146-148			
loan operations of ..	40, 59, 66, 123, 129			
of Burma, banker to ..	2			
of Pakistan, banker to ..	2			
Governor .. ..	4, 5, 47, 103, 131			
High Commission of India, assistance to .. ..	69			
Hilton-Young Commission .. ..	1			
Imperial Bank of India ..	1, 34, 58, 59, 64, 77, 126, 132			
Income and expenditure of Reserve Bank ..	154			
Indigenous bankers .. ..	23, 24			
Industrial Credit and Investment Corporation of India ..	100			
Industrial finance				
banks' participation in .. ..	100-104			
facilities for .. ..	94, 133			
Industrial Finance Corporation of India ..	94-96, 99, 125			
Refinance Corporation for Industry ..	102-104, 133			
State Financial Corporations ..	37, 94, 97-100, 133			
Industrial Finance Corporation Act, 1948 ..	96, 125			
Industrial Finance Department .. ..	104, 121, 133			
Informal Conference on Rural Finance ..	57, 58, 74-77, 85			
Inspection				
Department .. ..	121, 130			
of banking companies ..	25, 49, 50, 53-55, 134			
of co-operative banks ..	77, 85			
of State Financial Corporations ..	98, 133			
Instruments of credit control .. ..	27, 28, 43-46, 160			
Interest rates				
concessional rates of Reserve Bank ..	35, 80-82, 90-95			
of co-operative banks .. ..	81			

Internal organisation of the Bank	.. ..	5, 6, 7, 120-135
International Bank for Reconstruction and Development	.. ..	70, 95, 118, 125, 129, 141
International Monetary Fund	13, 30, 70, 105, 106, 118, 125, 129, 137, 141	
Issue Department	.. ..	6, 11-15, 120, 121, 127-129, 136-139
Issue of new loans and Treasury bills	.. ..	60, 65-68
Investments		
of banks (see banks)		
of Reserve Bank	.. ..	142, 143
Land mortgage banks, contribution to debentures of	.. ..	83, 84, 90-93
Liabilities		
Banking Department	.. ..	139-141
Issue Department	.. ..	137
scheduled banks	.. ..	149, 150
Licensing of banks	.. ..	49, 50, 53, 54, 57
Liquidation of banks	.. ..	54, 56
Loan floatations of Central and State Governments	.. ..	65, 66, 70
Loans and advances		
of scheduled banks (see banks)		
of Reserve Bank (see advances)		
Loans granted by finance corporations	.. ..	96, 99, 100
Local Boards, constitution and functions	.. ..	4, 5
Malcolm Darling (Sir), Report of	.. ..	72
Monetary and credit policies	.. ..	10, 21, 38, 108
Money lending, regulation of	.. ..	73
Money market	.. ..	21-27, 39-41, 66
Moneylenders	.. ..	24, 72, 73
Money supply with the public	.. ..	10, 11, 20, 21
Moral suasion	.. ..	47
National Agricultural Credit (Long Term Operations)		
Fund	.. ..	79, 83, 92, 93, 139
(Stabilisation) Fund	.. ..	79, 83, 92, 93, 139
Nationalisation of Reserve Bank	.. ..	3, 4, 154
Non-scheduled banks	25, 27, 32, 46, 50, 149	
Note issue, statutory provisions relating to	.. ..	11-14
Notes		
held in the Banking Department	.. ..	137, 142, 147
in circulation	.. ..	14-16, 137, 143, 146-147

Notes Refund Rules .. .. .	129
Offices/branches of Reserve Bank ..	6, 7, 14, 64, 67, 120-2
Open market operations ..	10, 27, 28, 33, 39-41, 129, 148
Organisation of Reserve Bank .. ..	5-7, 120-35
Paid-up capital and reserves of Reserve Bank .. ..	139
Profit and loss account of Reserve Bank .. ..	136, 154
Promissory notes	
Central and State Governments	66, 124
demand .. .. .	34, 35
eligible for purchase by Bank .. ..	29-32
usance .. .. .	32, 34
Proportional reserve system .. .. .	13
Public Accounts Department .. .. .	64, 122
Public Debt (Central Government) Act, 1944 .. ..	63, 123, 131
Public debt, management of .. .. .	59, 60, 63, 65, 122, 123, 129, 154
Public Debt Offices .. .. .	59, 65, 66, 122-125
Public Debt Rules, 1946 .. .. .	123
Publications of Reserve Bank .. .. .	117, 154-158
Rediscount of Treasury bills .. .. .	67, 127
Refinance Corporation for Industry .. .. .	102-104, 133
Remittance facilities .. .. .	15, 58, 60, 65, 132
Remittance in foreign exchange .. .. .	111, 112
Reorganisation of co-operative movement, scheme for .. ..	73, 75
	76, 86, 87
Report	
of the Central Board of Directors .. ..	9, 117, 155, 156
of (Sir) Malcolm Darling .. .. .	72
on Currency and Finance .. .. .	9, 117, 149, 155, 156
Reserve Bank of India	
(Amendment) Acts, 1953-55-56 .. .. .	13, 41, 42, 82, 83, 95
(    "    ) Ordinance, 1957 .. .. .	13
(Transfer to Public Ownership) Act, 1948 .. ..	3, 4
(Second Amendment) Act, 1957 .. .. .	13, 14
Reserve fund	
of banks .. .. .	52
of Reserve Bank .. .. .	139, 148
Reserve requirements	
of non-scheduled banks ... ..	41, 51
of scheduled banks .. .. .	10, 41, 42, 51
of State co-operative banks .. .. .	77
view of the Co-operative Movement in India .. ..	9, 155, 156









